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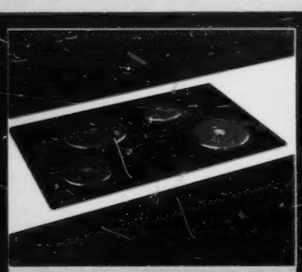
BUSINESS IDEAS FOR TODAY'S RETAILERS AND DISTRIBUTORS

November 1985

A GORDON PUBLICATION

RETAILING

Instant credit approval fuels retail sales



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AUTOSOUND

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HOME COMPUTERS

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IS THE SHRINKAGE PROBLEM REDUCING YOUR PROFITS?

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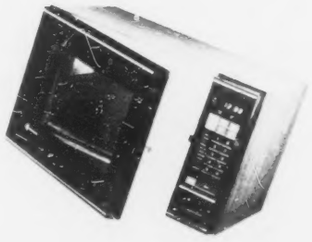

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Who killed the home computer market?

The popular press has echoed the woes of the home computer market to consumers for over a year. Is the industry listening?

For more than a year now, the scenario painted by observers of the home computer market has gone along these lines: In 1985, total unit sales for computers sold into the home will decline by more than 10 percent. People buy three to five pieces of software with their initial purchase and then do not add to their library for another six months to a year. Unfortunately, in the interim many become bored or disillusioned with their machines and stow them away. Nobody has discovered a *compelling* reason for consumers to own a machine but it's not word processing, spread sheets or database management. Moreover, most machines that are used in the home are put to work on business tasks.

Their conclusion: The home computer market is dead. Or worse, the home computer market never even existed.

"Personally, I have never felt there was a home computer market. There is a home video game market and there is a small business machine market and you have to sell a product for one or the other. There is no marriage," says Robert Wight, vice president of marketing for Pfanstiehl, a manufacturer of a wide range of accessories.

The well publicized difficulties at Commodore, the winner of the first home computer war, coupled with the determination of both Commodore and Atari to penetrate the computer specialty channel is looked at as confirmation that the home market is dead. And many consumer electronics and appliance dealers have applauded themselves for avoiding the crash by not carrying the product.

Are they right? Not according to analyst Jeffrey Tarter. In a recent edition of his newsletter Soft Letter, he argues that reports of the demise of the home computer market has been overblown. "It has become the official myth," he says.

For all the gloom numbers, there are some boom numbers as well. The Software Publishers Association, whose members mainly sell into the home market, report that second quarter sales, traditionally a slow period, were up 35 percent over last year. Moreover, although the EIA projects that unit sales of home computers will dip to 4.5 million units in 1985 from 5.1 in 1984, those numbers could reflect an extremely weak first half in which Commodore turned its attention away from its mainstay, the C-64, and Atari just scrambled to stay alive. Software sales should rise about five percent in dollar terms this year, even as unit prices continue to fall. In 1986, according to the EIA, home computer hardware sales should grow by nearly 15 percent in unit terms and 10 percent in dollar terms while the software market could increase at a 30 to 40 percent clip (see chart).

The reason that the home computer market appears to be going through a hard period is due to the difficulty in defining what the home market is. "The distinctions never work," says Tarter. "First researchers said that it was machines that sold for under $1500. Then certain brands were home machines. Then who paid for it. Defining the home computer market is like trying to pick up jello," he says.

Perhaps the best way to consider the home computer market is simply to look at machines that are used at home, for whatever reason. By that definition, the bulk of the market can be segmented into three major categories by price. First there are dedicated video game machines, small microprocessor machines that generally sell for under $75, although the Japanese company Nintendo is in the process of rolling out an ultra-sophisticated, high-end machine. In the middle comes machines built around 8-bit technology, like the C-64, the C-128 and the Atari 800XL and 130XE. These machines retail for between $100 and $300. Finally, there are the high-end machines which sell for $800 to $2000. In this group is the venerable Apple II family and competitors, the new introductions based on the Motorola 68000 chip like the Amiga, the Atari 520 ST and perhaps the Macintosh, and finally some IBM PC compatible computers like the Olivetti PC, the Canon Athena and others that are sold through consumer electronics outlets like The Federated Group.

Although these machines do not share the same channels of distribution, they do have one characteristic in common; they are designed for personal use. They are not built to tap into the corporate mainframe or necessarily be networked with minicomputers and other more Fortune America type uses.

If the home computer/video game market can be divided in this fashion, the video game sector seems to be showing signs of increased vitality and the high-end market, spurred by new technology and price cuts on the old, has generated a lot of enthusiasm. The mid-range machines, once identified as the home market, continues to languish.

"Most of the price buyers have been shaken out," Tarter speculates, "by the people who were willing to spend $500 or $600 to see if they could find a use for it. Now people are willing to spend more money."

Commodore officials continue to project strong sales for the C-128, banking on significant numbers of C-64 owners upgrading to the new machine.

Perhaps the most surprising development in the market has been the renewed interest in video games, a product which took a dramatic nose dive in 1983 when the combination of overcompetition, oversupply of poor quality product and the introduction of better technology splashed red ink on manufacturers, distributors and retailers alike. Los Angeles-based INTV Corporation bought the rights to Intellivison and has begun to market a third generation video game system. INTV plans to offer the dedicated game player for a retail price of $59.95.

INTV has modest first year goals, hoping to sell 10,000 to 15,000 players, primarily overseas where the penetration of the first generation of players was not so strong and consequently the crash not so devastating. But the company has reasons to be optimistic. A direct mail catalogue offering software to the installed base of Intellivision owners generated a whopping 10 percent return.

"And statistics indicate that as many as 75 percent of the others will now look for the product in stores," says INTV's CEO Terrence Valeski.

Indeed, it's the installed base that keeps manufacturers, publishers and retailers coming back to video game players. Of the 20 million players sold, perhaps as many as seven million are still in use, according to Rob Holmes, director of marketing at Activision. Once a leading third party supplier of video game software, Activision has successfully restructured itself as a broad-based home computer software publisher. It recently ported

Will happy days be here again?

Home computer makers, whose industry has become every publication's boom-to-bust story over the past year, may not be singing the popular refrain in the near future but they shouldn't need to be singing the blues either. While Future Computing is predicting a decline of about 6% in 1985's 4th quarter sales over 1984's record $1.8 billion, the market is still substantial. And the EIA's projections are a little rosier, reflecting a slight upward trend in unit sales to dealers and factory sales in terms of dollars for hardware. Software sales projections fare even better, capitalizing on a growing installed base and increased consumer awareness of applications.□

HOME COMPUTERS

	1982	1983	1984	1985 (proj.)	1986 (est.)
Total sales to dealers in units (thousands)	2,000	4,800	5,100	4,500	5,000
Total factory sales in $ (millions)	1,300	1,950	2,250	2,250	2,500
Average value ($ per unit)	650	406	440	500	500

HOME COMPUTER SOFTWARE

	1982	1983	1984	1985 (proj.)	1986 (est.)
Total sales to dealers in units (thousands)	N/A	35,000	40,000	45,000	65,000
Total factory sales in $ (millions)	250	600	640	675	910
Average value ($ per unit)	N/A	17	16	15	14

Source: EIA

some of its programs to the Amiga and the Atari 520 ST as well as the Macintosh. Still, the company has stayed active in the video game market.

"I wouldn't say that there is renewed vitality," says Holmes, "but the old inventory is working its way through the channel. And there is a new customer in the market for good, new software."

According to Holmes, the video game market has consolidated over the past 18 months. Many mass merchandisers and high volume retailers who made a committment to the category found a good sales opportunity, he says. But most of the exotic distribution outlets like convenience stores, video cassette rental shops, and record stores left the business.

Perhaps the most intriguing new development in the video game business is the effort by Nintendo, which holds a strong position in Japan and in the American arcade business, to introduce a high-end game player for $200.

Nintendo debuted its Advanced Video System in Japan in 1983 and has sold more than 2.5 million players and 15 million software packages to date. Will it succeed in the United States?

"It is like the relationship of video cassette recorder to the video tape player. How far does the individual consumer want to be tied in for the price," says Holmes.

Like most participants, however, Activision is more intrigued by the possibilities presented by the introduction of the Amiga and the Atari ST than the return of video games. In a matter of weeks, says Holmes, its program Hacker, a game which simulates breaking into a computer database, climbed to the seventh position on many best seller charts. It has since been ported to the Amiga, Atari 520 ST and the Macintosh. "The introduction of those machines have rejuvenated interest in the category," says Holmes.

Adds Rob Jordan, vice president, marketing at Haba/Arrays, a publisher of a wide range of productivity solution software, "We are shipping all the software that we can produce for the Atari ST."

The new Commodore and Atari introductions have muddled the distribution channels for home computing however. Turning their back on the mass merchants, the heart of C-64 and Atari 800XL distribution, both Atari and Commodore have aggressively pursued the computer specialty channel. Commodore claims to have more than 600 dealers and Jack Tramiel has said on a number of occasions that he has more than 500 dealers carrying his product.

However, many dealers, busy pursuing system sales to Corporate America, have shown little interest in single sales to families except during the fourth quarter. By some estimates, the Christmas selling season generates about 75 percent of the total home computer business.

In the long run, the 520 ST, the Amiga and even the Apple II series of computers, may not remain in the specialty channel. One industry observer who declined to be named speculated that when Atari saw that it could not generate the volume it needed through the specialty channel, it would introduce a 256K version of the ST for the mass merchandisers. "If that happened," he says, "I understand that there is a lot of price flexibility built into the Amiga.

Many home computer marketers are still puzzled when it comes to presenting reasons why people should bring computers into their homes. Jeffrey Tarter feels that may be a misdirected question. "The computer is a tool. And with any new tool, it takes a while to invent things to do with it. But with a good tool, people will come up with really good stuff."

Haba, for example, markets one software package with a disk of form letters. Another is a do-it-yourself wills. "This is not an application but a solution," says Jordan.

And as more publishers and consumers find solutions, the reasons to put computers into the home will grow, those in the industry feel.

"You need accessible hardware," a variety of software and the right price," says Activision's Holmes. "Then you may have explosion growth like we did in the past."

Will the new 68000-based computers provide that?

"I'm smiling," Holmes says. □

Elliot King

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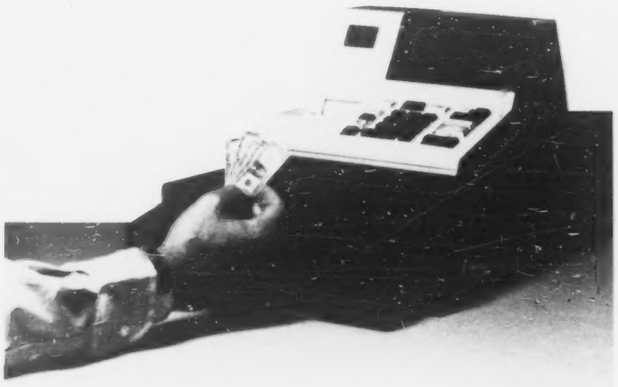
PHILCO . . . Your Better Buy

Controlling the shrinkage problem



Fighting shrinkage is likened to wrestling an octopus; it is a beast which can attack your profits from a multitude of directions.

Two words — eternal vigilance — are the answer to every retailer's problems of shrinkage, or losses of inventory and money to theft and/or error. That's the opinion of experts from both outside agencies and store personnel who direct security programs. All agree it's necessary to invest time and money in planning, equipment and services to keep shrinkage to a tolerable minimum. Complete elimination seems to be an unattainable ideal, but failure to take preventive steps can let profits walk out the front or back door.

For all retailers, the shrinkage rate has been running at 1.3 to 3 percent of volume in recent years, according to Peter Haas, retail security specialist for Pinkerton's Inc. The causes are as diverse as shoplifting, employee theft and poor record keeping, although Haas notes computerized recording and inventory systems have helped to reduce the percentage caused by mistakes.

"The only safe way is to attack all three causes since the percentage of external/internal theft and error varies from store to store, especially in larger companies. It depends on such things as the extent of tight management procedures, the type of merchandise sold, volume and location of the store, and other variables," comments Chandler Eavenson, former manager of corporate security for the Rich's Department Store chain. He emphasizes the importance of pre-employment checking of references. "A few dollars spent at this stage will be well worth it in the long run," he says, suggesting the use of credit reporting agencies and reputable private security systems.

A careful reference check is one of the steps routinely used at Hi-Fi Buys, a 14-store consumer electronics chain based in Indianapolis. "We also rely on the PSE, a 15-minute psychological test," says John Nork, vice president. He adds, "The test analyzes voice stress patterns without the use of polygraph and has proved very valid for us."

Administered by an outside agency, the test system records an employee's voice in an across-the-table conversation with an interviewer, and the agency reports to the store on its analysis of

Some employees create their own 'profit sharing plan'

While the word "shrinkage" most commonly evokes images of a customer slipping merchandise in their pocket or an employee creating his own profit sharing program with the register receipts, losses at retail go far beyond unscrupulous activities. If, for instance, you are running a sale on certain merchandise but your cashier mistakenly applies the discount to other goods that aren't on sale, this is shrinkage. Retailing authorities describe shrinkage as the difference between what you think you have and what you actually have, either in merchandise or dollars.

While there are dozens of explanations for shrinkage, experts agree that theft is by far the most damaging. What's more, most retailers agree that the employee theft is not only a financial blow, it indicates that the people out on your floor have little loyalty or appreciation for the people who pay their salary.

And just how many people are ripping off the boss? That depends largely on what you consider a rip-off. Is the person who adds an extra half hour to his time sheet a thief? How about someone who breaks something so that they could buy it at discount? The answer is yes. All of these things cost an employer money and all of them contribute to shrinkage.

When all of the factors that contibute to shrinkage are tallied (not including human error) it is revealed that more than a third of all workers engage in an activity at work that leads to shrinkage, according to a Department of Justice study.

Some 3,500 workers were surveyed in confidence and asked if they ever took part in any one of seven dishonest activities and if so, how often. While only 2.7 percent said they actually took money without authorization, 28.9 said they had misused a store discount for their own gain. Another 6.6 percent said they had helped themselves to store merchandise while 5.8 percent admitted to submitting documents that lead to them being paid for hours they did not work.

The study also noted that 3.2 percent of the workers surveyed had purposely rang up merchandise for less than the marked cost as a favor to a friend or as part of a kickback scheme.□

Al Stewart

Employees admitting to in-store abuses
by % interviewed

	Almost daily	Once a wk	4-12x a yr	1-3x a yr	Total
Misused store discount	.6	2.4	11	14.9	28.9
Took store merchandise	.2	.5	1.3	5.6	6.6
Paid for more hours than worked	.2	.4	1.2	4.0	5.8
Intentional under-ring	.1	.3	1.1	1.7	3.2
Took money	.1	1	.5	2.0	2.7
Padded expense reports	.1	.2	.5	1.3	2.1
Purposely damaged mdse.	0	.1	.2	1.0	1.3
					35.1%

Source: Dept. of Justice

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RETAILING

NARDA reports on costs of doing business

Although sales are up gross margins remain in a downslide, survey shows

"A year of unprecedented opportunity for most hard goods retailers." That's the label applied by the National Association of Retail Dealers of America in its recently issued 39th Annual *Costs-of-Doing-Business Survey*, covering 1984.

Citing an "upbeat" tempo in the national economy, a "lid on interest rates," and the under 35 generation moving back "into the housing market with a vengeance," the NARDA survey reports these highlights:

- Volume gains of 25 percent or more in home electronics for many retailers.
- Volume gains of 18 to 24 percent in appliances, depending upon the product category.

Also noted were some "clouds which appeared on what might have been the brightest horizon the trades had seen in many years."

Among them: the "dramatic growth" of the warehouse store concept in retailing, which, the report said, began on the West Coast, and since found imitators in the East and Midwest; retailer complaints of being unable to find "good, interested sales help"; brand name merchandise expanding into national mass merchandising chains; and, on the service side, manufacturer solicitation of service contract business from customer warranty cards, inadequate compensation to servicers for performing in-warranty labor, and delays in payments.

In the case of the warehouse store concept spawned in San Diego by merchant Sol Price, which the survey called a "no frills, limited assortment, club membership store operating out of some 40,000 sq. ft. of bin area," the theory is that keeping expenses — and gross margins — down will generate enough gross profit dollars to provide a return on investment of 25 percent or more. "Consequently, in those markets, traditional retailers found themselves competing with gross margins of 10 percent or less; albeit on selected items."

The survey also said the increasing appearance of familiar brand name appliances and home electronics products in national mass merchandising chains, i.e., Montgomery Ward, Sears and K mart, "enjoying quantity discounts which few if any unaffiliated independents could match did tend to depress margins..."

At year end, December, gross margins were down from year previous levels in 11 of 17 product categories, as measured by the NARDA computerized report from confidential retailer returns — although 13 categories showed sales gains for the year.

By products, the sales, and gross margins, were reported as follows:

Five good reasons to join the American Video Association...

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- I Sell VCR's
- I Sell Accessories
- I Sell Service Contracts
- I Don't Do Enough of the Above

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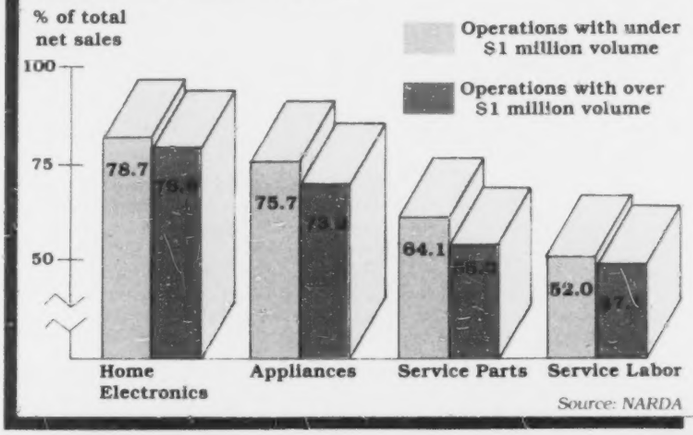
COST OF SALES BY CATEGORY
(as a % of total net sales)



Source: NARDA

Video recorders	+31%,	21.2%	down .3%
Dishwashers	+15%,	20.2%	down 4.1%
Microwave ovens	+14%,	23.7%	up .8%
Clothes dryers	+14%,	25.0%	up .6%
Audio	+12%,	27.3%	down 2.7%
Tape recorders	+10%,	33.5%	up 1.7%
Disposers	+ 9%,	28.6%	up .9%
Vacuums	+ 9%,	28.8%	down 3.2%
Washers	+ 7%,	23.0%	down 1.0%
Color TVs	+ 7%,	19.4%	down 1.7%
Radios	+ 5%,	26.8%	down 2.5%
Electric ranges	+ 4%,	22.0%	down 1.5%
Refrigerators	+ 3%,	22.6%	up .3%
B&W TVs	+ 7%,	18.7%	down 3.7%
Freezers	-12%,	23.6%	down .3%
Air conds.	-15%,	22.0%	down 1.1%
Gas ranges	-22%,	27.1%	up .6%

The search for profits, according to the survey, led to diversifying into such things as telephones, and the sale of extended service contracts.

A "record participation" in the survey from association members, according to Jules Steinberg, executive vice president of NARDA, included 611 returns in the largest survey category-appliance/home electronic sales & service firms. Illustrated with charts, such as those averaging returns from retailers with under $1 million volume, over $1 million, and the average of the top 10% — which permit readers to compare their own performances — the section highlights the "more pronounced" differences in store volumes.

The less than $1 million group barely reached a before-tax profit of 1.5 percent of sales compared with 4.1 percent for the more than $1 million group. One reason, the survey noted, is the gross margins realized — the smaller stores averaging just 21.3 percent on home electronics, compared with 23.4 percent for the larger stores; 24.3 percent on appliances against 26.8 percent. The larger merchants also recorded volume rebates of over two percent on sales, while it was less than one percent for the smaller ones.

Larger dealers also turned their inventories faster, 5.3 times versus less than 4, than did smaller dealers. However, it was indicated that "all merchants generally were in lean inventory positions" at the end of the year.

The 302 respondents in the "Sales Only" category reported sales increasing an average 21 percent, sales per sq. ft. of $513, and gross margins slightly over 23 percent.

In "Service Only," which drew a record 353 survey participants, the 67 who service only appliances showed the best success, with an average 26 percent sales gain and a 68 percent gross margin on labor and 40 percent on parts, or nearly 50 percent overall. The average for the 202 home electronics specialists was only a 6 percent sales gain and 30 percent overall gross margin. The 84 firms who service both categories averaged a gross margin of 36.5 percent.

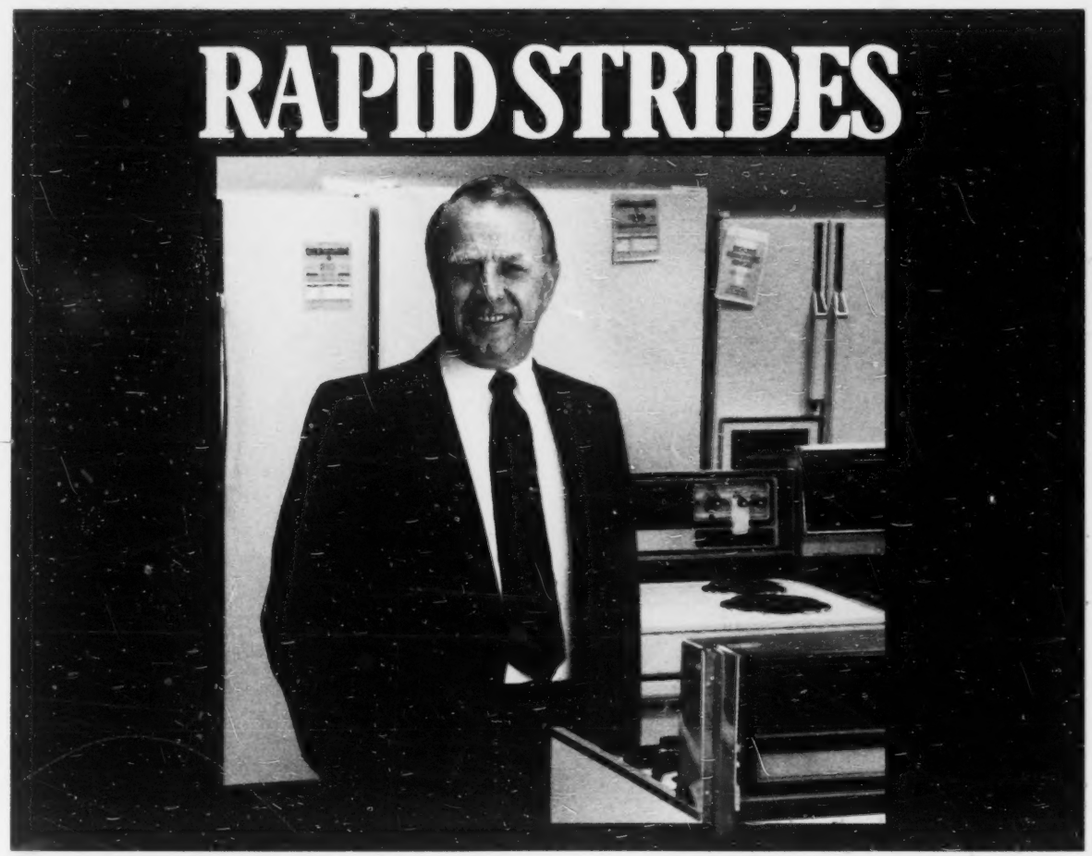
Firms specializing in "Video Sales" enjoyed record average gains of 34 percent in volume, "but there appeared to be no let up in the tremendous pressures on margins," according to the survey, an accompanying chart showing an average gross margin of 11.8 percent.

Summed up NARDA's Steinberg in his survey comments, urging carefully scrutiny of the "gross margin" and "other income" sections in the charts: "There are ... more ways to make money than simply buying and selling one class of product, or offering one service."

Listing at $35, the complete survey report is available from NARDA at 10 E. 22nd St., Lombard, IL 60148 □

Jack Blood

RAPID STRIDES



"WCI Creditline is adding an extra kick to your sales."

— Harold E. Schafer, vice president, consumer products

It's already off to a running start, and soon it'll be sweeping the country.

"Our new consumer financing program," says Hal Schafer, "is going to give home appliance dealers exactly what they've wanted. Because they're the ones who helped design it."

WCI Creditline will provide retail financing for all the corporation's major appliance brands: Frigidaire, Gibson, Kelvinator and White-Westinghouse.

And for other home furnishings that a participating WCI dealer may choose to sell.

Additionally, says Hal: "It can also be used to finance the cost of installation for a range or a built-in dishwasher. Or to cover the expense of service calls."

Tied into the program are a number of attractive retail promotion possibilities...ninety days same as cash, first year interest free, ninety-day deferred payment, etc.

We think it's the strongest, most flexible plan any dealer is going to be able to offer. Available now in selected areas of the country, and available nationally early next year.

WCI Creditline. "You're going to want to know all about it," says Hal. "And I'm going to be very happy to tell you."

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wci White Consolidated
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C4170-1

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BUSINESS IDEAS FOR TODAY'S RETAILERS AND DISTRIBUTORS

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VIDEO SOFTWARE

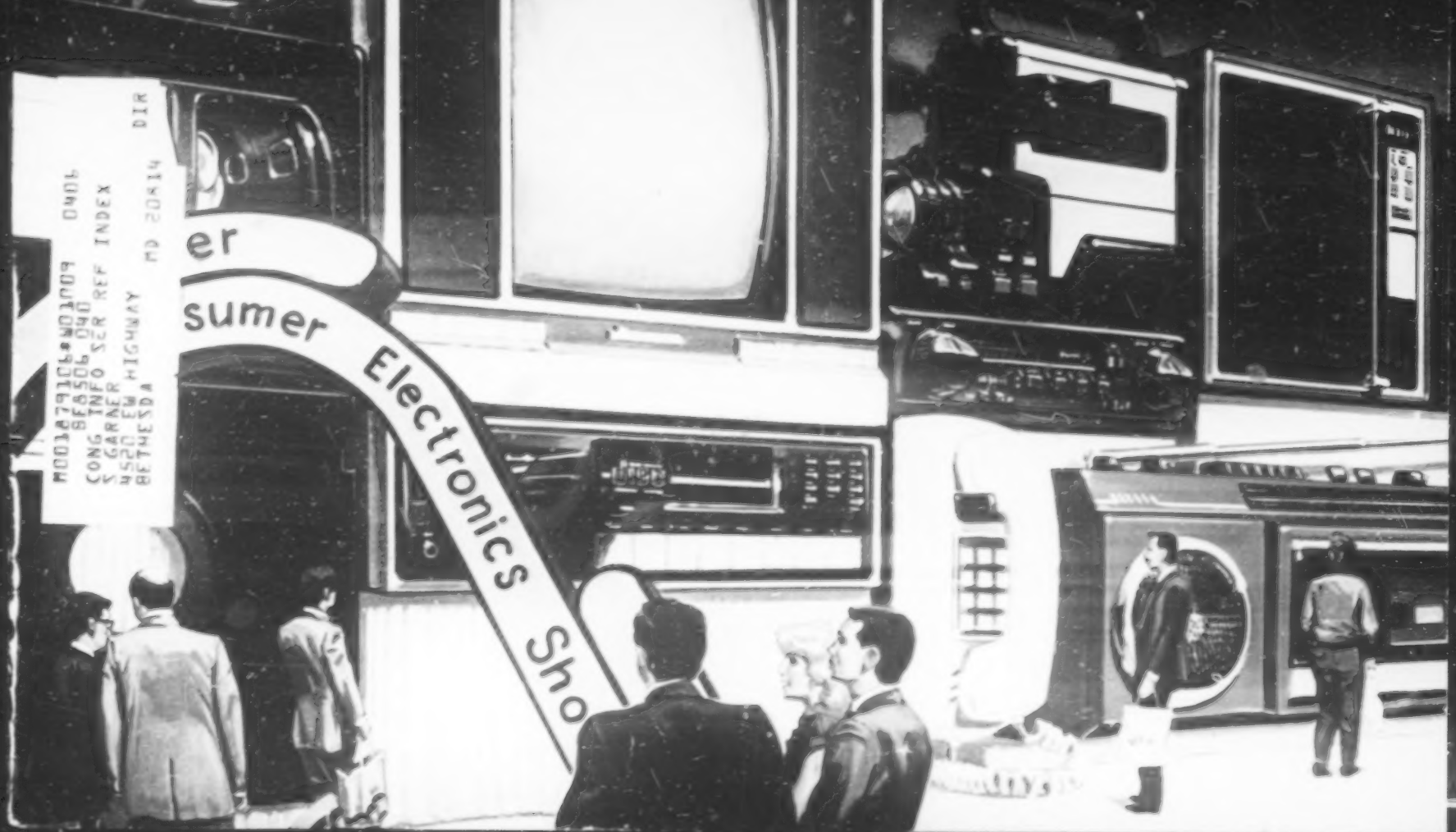
HOME ELECTRONICS

TELECOMMUNICATIONS

APPLIANCES

CES

NOBODY DOES IT BIGGER



MART
Business Ideas for Today's Retailers and Distributors

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HOME ELECTRONICS

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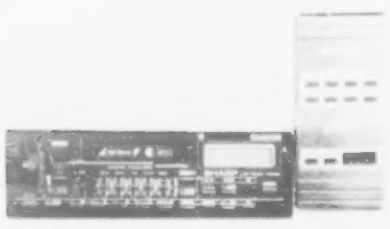

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RETAILING

'Made in America' gaining back respect

Poll shows that Americans perceive U.S. made products as higher in quality; home electronics are exception to rule

Be it blind patriotism or a calculated evaluation based on years of research, American consumers say that products made in the U.S. are top quality and are likely to get better. The one glaring exception to this sense of consumer nationalism is in the area of consumer electronics where buyers give higher marks to foreign-made products than those made in the U.S.

The findings were the result of a recent Gallup Poll conducted for the American Society for Quality Control (ASQC), a non-profit group devoted to promoting increased quality in goods and services. Over 1,000 adults, representing a cross section of ages, education and income, were interviewed last summer and asked a series of questions relating to their perception of quality.

When asked to compare U.S.-made versus foreign-made in eight different product categories, the only product grouping where respondents cited foreign superiority was the area described in the poll as "TV, radio or other home entertainment equipment." Forty-five percent of those polled said foreign-made products were "better" while only 40 percent said there was no difference.

In contrast, a scarce six percent indicated their preference for foreign-made major appliances while an overwhelming majority of 78 percent said that American-made appliances were the smarter buy.

"The poll is an appraisal of the way consumers feel about various products," says Jim Harrington, president of ASQC and a senior engineer/project manager for IBM in San Jose. "The poll is not intended as an appraisal of the products themselves or the countries that manufacture them. The survey measures perception, and even if that perception isn't entirely accurate, it still exists in the mind of consumers and should be taken into consideration by manufacturers."

Harrington noted that there was a great deal of misunderstanding on the part of consumers as to what is and isn't foreign-made product. "Someone goes into a store to buy a VCR and they see an RCA model, they may buy it under the assumption that they are 'buying American', when in reality the VCR was made in Japan. The same thing holds for a Sony TV. Even though it may have been built in Sony's San Diego plant, people think it's from Japan just because it says 'Sony'," explains Harrington.

"What the poll clearly shows is that the public's belief and faith in U.S. manufacturers has increased considerably," says Harrington. "There has been a huge change in perception. In 1980 a similar poll was conducted and found that 75 percent of those surveyed felt foreign products were better than, or equal to, their American counterparts," added Harrington.

Other findings of the Gallup survey on quality include:

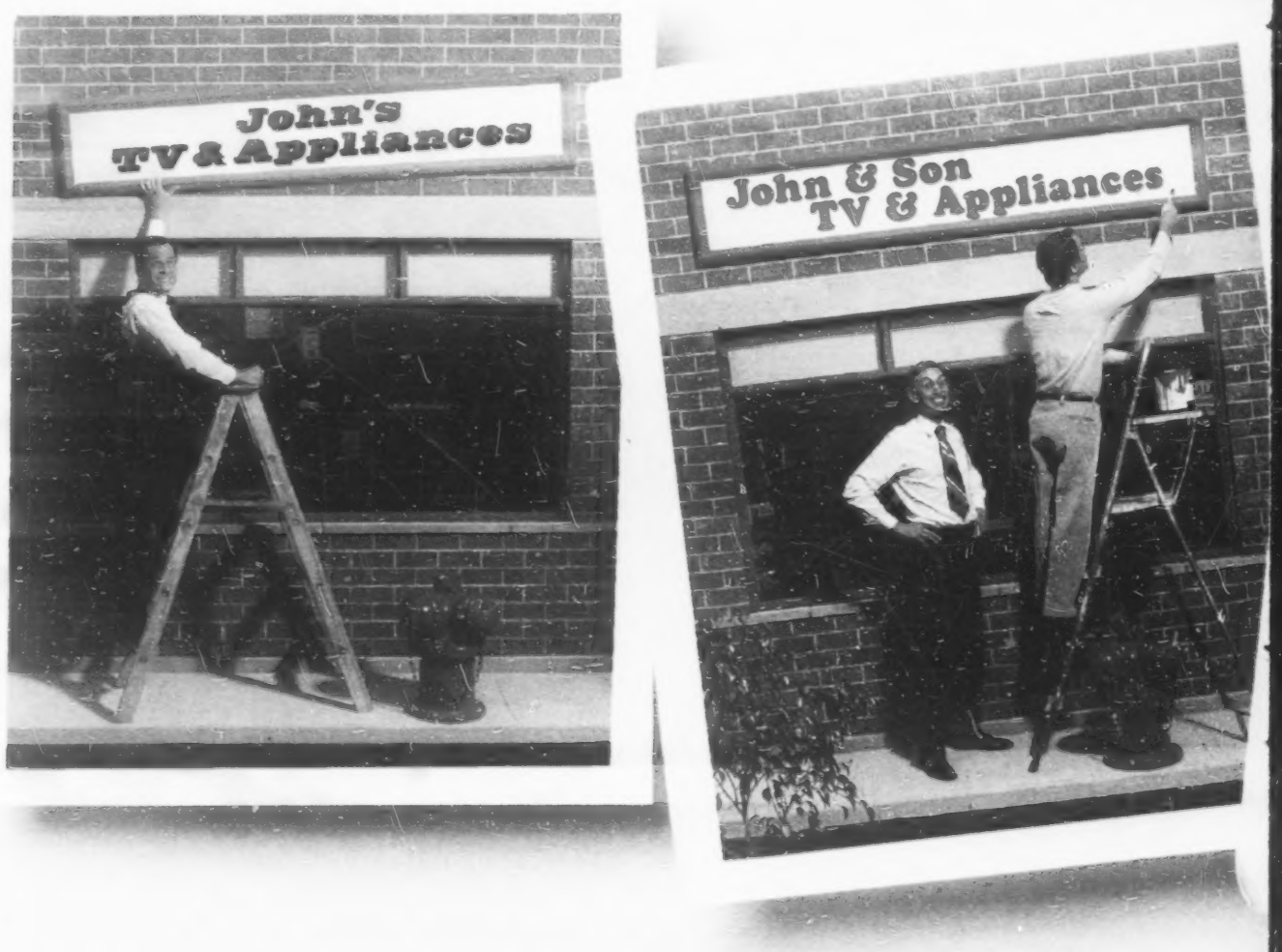
• Among the factors that determine a product's quality in the minds of

Which Is Better . . .

(Number Of Interviews For Each Below = 1,005)

	American Made %	Foreign Made %	Both The Same %	Don't Know %	Total %
Furniture	84	4	7	5	100
Major Appliances	78	6	12	4	100
Small Appliances	58	19	17	6	100
Automobiles	46	38	14	2	100
Personal Computers	41	22	10	27	100
Consumer Electronics	40	45	12	3	100

Sometimes the last thing you think about is who finances your inventory.



consumers, brand name was cited by 31 percent while another 26 percent said that a product's workmanship, including materials used and construction, is the chief factor. Price, performance and past experience were each mentioned as the determining factor by about 16 percent of those surveyed.

• When participants were asked to name five companies they associate with quality, General Electric was number one on a list that reads like a Who's Who in corporate America. Other consumer electronic and major appliance firms mentioned repeatedly (and their rankings) include Sony (8), RCA (10), Zenith (11), Maytag (19), Panasonic (21) and Whirlpool (23).

• The respondents that said American products are superior, tended to be less educated and less affluent than those who indicated no preference or a preference for foreign-made goods. They were also more likely to be over 50 years old and belong to a labor union.

• Asked how long they expected various products to last, participants singled out major appliances as the most durable product grouping. Seventy-three percent said they expected their major appliance to last 10 or more years with nine percent indicating that they expected their appliance to last more than 15 years. Less than half the respondents said they expect their TV set to last 10 years.

Al Sterrar

Brand loyalty fades with CE retailers

Report cites rapid turnover of lines at high-volume outlets

Retailers of electronics products are growing more and more willing to add new products and new manufacturers to their merchandise mix. According to a study by Venture Development Corp. entitled *Retailing Electronics to the End User II*, long term relationships between manufacturer and retailer are becoming the exception rather than the rule in many retail outlet categories. The report notes that this is due in part because of new product categories which retailers have been adding. The heart of the trend, however is that more retailers are flirting with, and being actively and effectively courted by competing manufacturers than ever before.

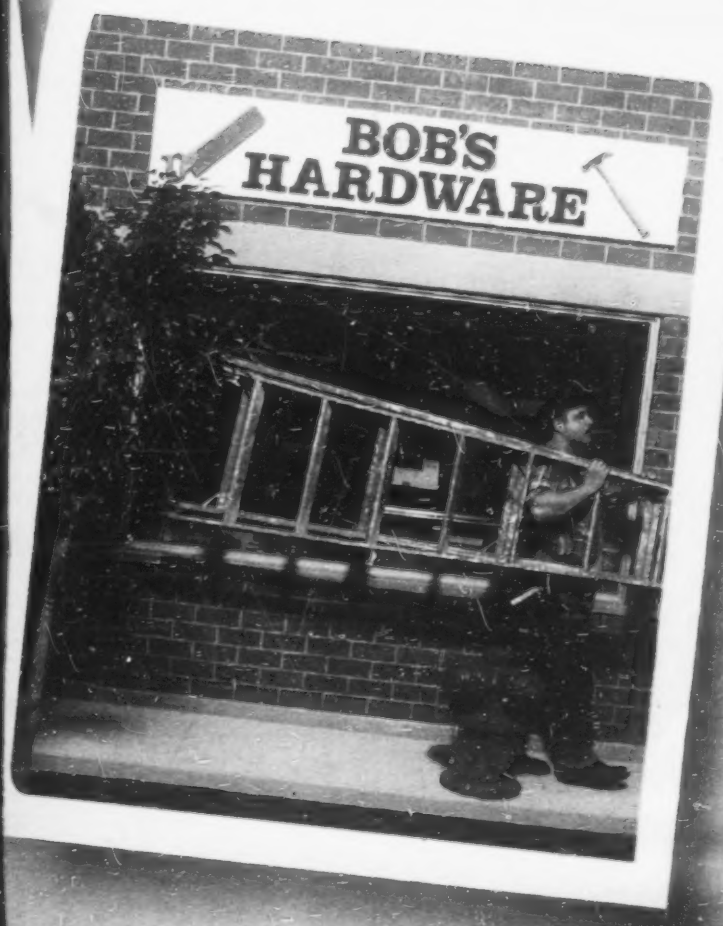
According to the survey, TV/Appliance stores show the greatest stability in terms of manufacturer turnover. Over 70 percent of the manufacturers carried by these retailers have been handled for over two years. However, previous surveys have noted even greater manufacturer loyalty from these retailers, many of whom specialized in the products of a single manufacturer.

Mass merchant/discount stores and department stores have shown the greatest decline in brand loyalty in the past few years. As recently as 1983, three quarters of the manufacturers carried by both retail types were carried for more than three years. In 1985 the situation was quite different. Only about half the manufacturers carried by mass merchant/discount stores have been handled for more than two years.

The change in the "longevity" of manufacturers supplying electronics products to department stores is even more dramatic. Less than 25 percent of manufacturers handled by these stores have been providing products to the same store for more than two years.

The report concludes suppliers have contributed to the changing nature of retailer/manufacturer relations through their aggressive pursuit of new accounts. Highly competitive product lines and a willingness to deal have provided manufacturers with entry to more retailers than ever before. Retailers, faced with competitive pressures of their own, are increasingly willing to talk with a new manufacturer. Some manufacturers note that deal-oriented retailers are coming to resemble buyers in the garment industry, with the phase "But what have you done for me *lately*" in the back of everyone's mind.

One exception to the trend away from loyalty to manufacturers can be found in video specialty stores. Two-thirds of the manufacturers carried by these stores have been handled for two years or more. This is a higher level than that seen in 1983. It is pointed out, however, that the increasingly loyalty of these retailers may simply be due to their relatively young age. Because many of these stores first opened their doors in the early 1980s, the 1983 survey found few with long term relations with suppliers. Many of these stores retain loyalty to their initial suppliers, particularly those retailers who have established a "high-end" image. Whether or not video specialty stores will replace TV/Appliance stores as the most loyal of retailers from the manufacturer's perspective remains to be seen.



It shouldn't be the very last!

Does staying in business too long inevitably bring the house down? Never! But we've been around the business long enough to know there's a fine line between you holding the key to your own future and someone else holding the padlock.

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In short, we take the long view that floor planning is a tool for planning ahead. To make financing pay off.

So rather than the last thing you think about, perhaps who finances your inventory should be the next thing you *do* something about. A call to 1-800-BWAC-USA will be a good beginning.

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MART

BUSINESS IDEAS FOR TODAY'S RETAILERS AND DISTRIBUTORS

APRIL 1986

A GORDON PUBLICATION

VIDEO HARDWARE

HOME ELECTRONICS

RETAILING

HITTING WARP SPEED:
Computers Take Retailers to New Heights

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Kitchen & Bath Show Appliance Supplement

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Backdrop by Charles Broderson

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ABP

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Reaching new heights with computers

Retailers are spending more money than ever before on information processing and looking to computers to help manage rising inventory costs

Dave Wahlberg, vice president of MIS, The Federated Group.

A subtle battle is brewing on the retail front. Like generals of wars past, today's retailers are engaging in a form of strategic warfare — using sophisticated information processing systems to maximize competitive position.

The computer is fast becoming the most formidable of weapons in the retailer's arsenal. In fact, retailing experts and systems managers say the difference between marginal success and winning big could be just a byte away for many retailers.

A recent study by Arthur Young, an international accounting and consulting firm, illustrates that use of computers in retail operations is progressing far beyond basic accounting. Computerization has become a top priority for our nation's retailing force — especially in such critical areas as inventory control.

Specialty and department stores, for example, substantially increased their computer-related expenditures in 1983 and 1984, according to the survey. Both types of retailers funneled 1.06 percent of their annual sales into information processing, compared to 0.86 for all survey participants. And on the average, spending on information systems increased 19 percent in 1984 over the previous year.

The survey culled responses from 111 retail organizations, including mass merchandisers (30), department stores (18), specialty stores (51) and combination/grocery stores (12). Combined, the participating retailers operate 25,249 outlets and report annual sales that total more than $57 billion.

The most prominent trend in retailing to emerge from the study is the use of computers to help manage escalating inventory costs. More than half of all participants targeted inventory control and stock replenishment as areas of development or improvement over the next two years. And in the specialty store category, 75 percent of those surveyed indicated such plans.

"Inventory control is where retailers are really getting the most bang for the buck," says Frank Andrews, manager of retail consulting for Arthur Young. Smaller specialty retailers, especially, are stepping up efforts in this area largely because so many turnkey hardware/software packages are available today at reasonable prices, he observes.

Al McCready, director of retail consulting at Arthur Young, adds: "If a computer can help a retailer spot emerging sales trends, the retailer can avoid understocking merchandise and losing sales, or overstocking and bloating inventory carrying costs. When a store can do this twice as fast as its competition, it's at a big advantage."

Retailing pundits surveyed by MART pinpointed several key ways in which computerized inventory systems are helping today's retailers: 1) responding to trends; 2) reducing inventory investment and increasing turns; 3) reducing operating costs; and 4) increasing productivity.

The Federated Group, a 59-store California-based consumer electronics chain with $364 million in annual sales, provides a shining example of how computerization can be a boon to

Large chains require special computer ammunition

Large volume chains have their own unique set of requirements when it comes to deploying computer systems as strategic and competitive weapons.

"A specialty store is a smaller entity with all of the administrative carryovers that you have in a larger retail environment. And yet you don't have the staffing or same level of funding for data processing as the large retailer," explains Terry Kelley, MIS director for Circuit City, the Richmond, VA-based consumer electronics/appliance chain.

"So, you have to come up with more innovative system designs and hardware architecture to make the whole thing work."

The $700-million-a-year chain took a unique path to fulfill its information processing needs. "We have custom-built our own computer system for the stores, Kelley reveals.

Spending about $20,000 per store, Circuit City is in the process of outfitting each of its 69 locations with sophisticated cash registers and terminals that tell salespeople what's in stock at a given moment and what the current sale prices are. System components are manufactured for the chain by a number of different vendors, according to Kelley. Display screens, for example, are built by a Taiwanese company," he says.

These customized information processing components tie into a host site where sales information is analyzed, enabling Circuit City to tightly control its inventory and generate sophisticated reports.

"In my opinion, one of the most critical areas of retailing is inventory control," Kelley says. "A specialty store has unique requirements: First you have to distribute to a great many locations. And, typically, specialty stores have low storage space in the back room.

"The first strategic issue that information processing will resolve for a specialty store is getting the goods that will sell in a location that is able to sell them," Kelley explains. "You do that by collecting sales data at the point of sale and communicating the information back to a replenishing system that knows what's in your warehouse."

Like a growing number of retailers' computer systems, Circuit City's system automatically replenishes stock at the store level. "It's a dynamic, changing environment," Kelley observes. "But not every store is looked at for every product every day. The system takes care of that automatically."

Kelley believes computers are being more readily recognized as strategic weapons for today's retailers primarily because of the speed at which they control such important areas as customer service, inventory and distribution. "It's real simple," he says. "If you've got a fast, efficient system up and running you're going to be successful. If you don't, your're not." □

Total MIS costs as a percentage of 1984 sales revenue

	Sales			Type of Store					
MIS Costs	Under $100 Million	$100-500 Million	Over $500 Million	Mass Merch. Stores	Depart. Stores	Specialty Stores	Comb./ Grocery Stores	All Participants 1984	All Participants 1983
Under .25%	15%	11%	23%	13%	0%	10%	67%	16%	16%
.25-.49%	9	18	10	26	6	6	17	13	13
.50-.749%	6	11	35	19	6	19	16	16	19
.75-.99%	12	21	13	23	23	12	0	16	16
1.0-1.49%	35	29	16	16	53	33	0	27	28
1.5-2.0%	14	7	0	0	12	12	0	7	5
Over 2.0%	9	3	3	3	0	8	0	5	3
1986 Average MIS costs a % Sales	1.04	.84	.67	.67	1.06	1.06	.23	.86	
1983 Average	.93	.82	.64	.66	1.01	.97	.22		.80

Source: Arthur Young

New software directory on line

A dramatic proliferation of retailing-specific software packages has prompted the National Retail Merchants Association to publish a sequel to its popular software directory.

Since the original book was published two years ago, software houses have introduced hundreds of programs targeting specific aspects of retailing.

The new "Directory of Software for Retailers No. 2," which features more than 800 packages from some 200 vendors, is the only one of its kind, according to John Chay, NHMA's vice president of information services.

"The first edition was probably one of the best selling books in NRMA's history," Chay observes. "We conducted the study because we were bombarded by requests from retailers: 'Where do I find this kind of software; where do I find something that will work on my Hewlett-Packard?; and so on."

The update directory is divided in three sections — main-frame, mini- and micro-computer software — and provides detailed descriptions of programs. Comprehensive cross referencing is offered within 20 different application areas and for many specialized categories of merchandise.

Developed by Coopers & Lybrand, an international accounting and consulting firm, the guide costs $39 for association members and $65 for non-members. For more information contact: NHMA Publications Department, 100 W. 31st St., New York, NY 10021. □

the bottom line. Consistent with the survey's findings, the chain's computer-related expenditures are on the rise, according to Dave Wahlberg, vice president of MIS (management information systems).

A progressive company when it comes to computers, Federated is continually investigating new ways to get the most from its computer network, but Wahlberg says the emphasis is on inventory control.

"Our automatic replenishment system takes the worry out of getting the right product to the right store at the right time," he explains. "Each night the computer takes a look at what the stock level is in each of the different categories of merchandise. If they need more merchandise, we create automatic transfer of that merchandise."

Terry Kelley, MIS director for the Virginia-based chain Circuit City, stresses that time is of the essence in getting merchandise from the warehouses to Circuit's 69 stores. The consumer electronics/appliance chain does $700 million a year in sales.

"The secret to retailing is very simple: The idea is you buy the goods from the manufacturer; get it to the store and sell it before you have to pay the manufacturer," Kelley says. "If you learn how to do that, you're gonna make a lot of money. If you don't do that, you're going to pay a lot of interest and not make nearly as much money. The whole idea is speed."

Chains like Federated and Circuit City employ sophisticated cash registers, or point-of-sale systems, which facilitate the flow of sales information from the cashier directly to a computer either in the backroom or at the company's host site.

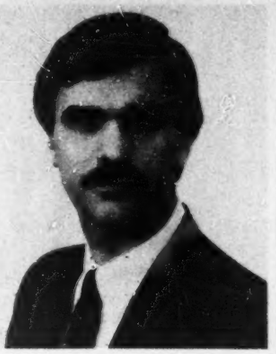
"We have the results of what happened in the store yesterday, this morning," Wahlberg says. "We're able to produce reports for people in the merchandising area so they know exactly what was sold."

Research on retailers' use of electronic cash registers recently conducted by Venture Development Corp. of Natick, Massachusetts, confirmed that today's retailers are more concerned now than in the past with gathering pertinent information at the point of sale.

"The trend is that retailers are not as interested in registers that do not have the option to communicate, even if they're not going to use that option immediately," says Leone Pease, a research analyst for Venture.

Andrews attributes this rise in computer consciousness to competitive pressures. "They (retailers) realize that if they're competition is reducing their expenses, improving merchandise selection and in-stock position because of automation, they have little choice but to also make that investment," he says.

Even small retailing operations with one or a few stores are using computers to gain a competitive edge. This is especially true in the world of video software where a large inventory of cassettes is typical.



Frank Andrews, manager of retail consulting, Arthur Young.

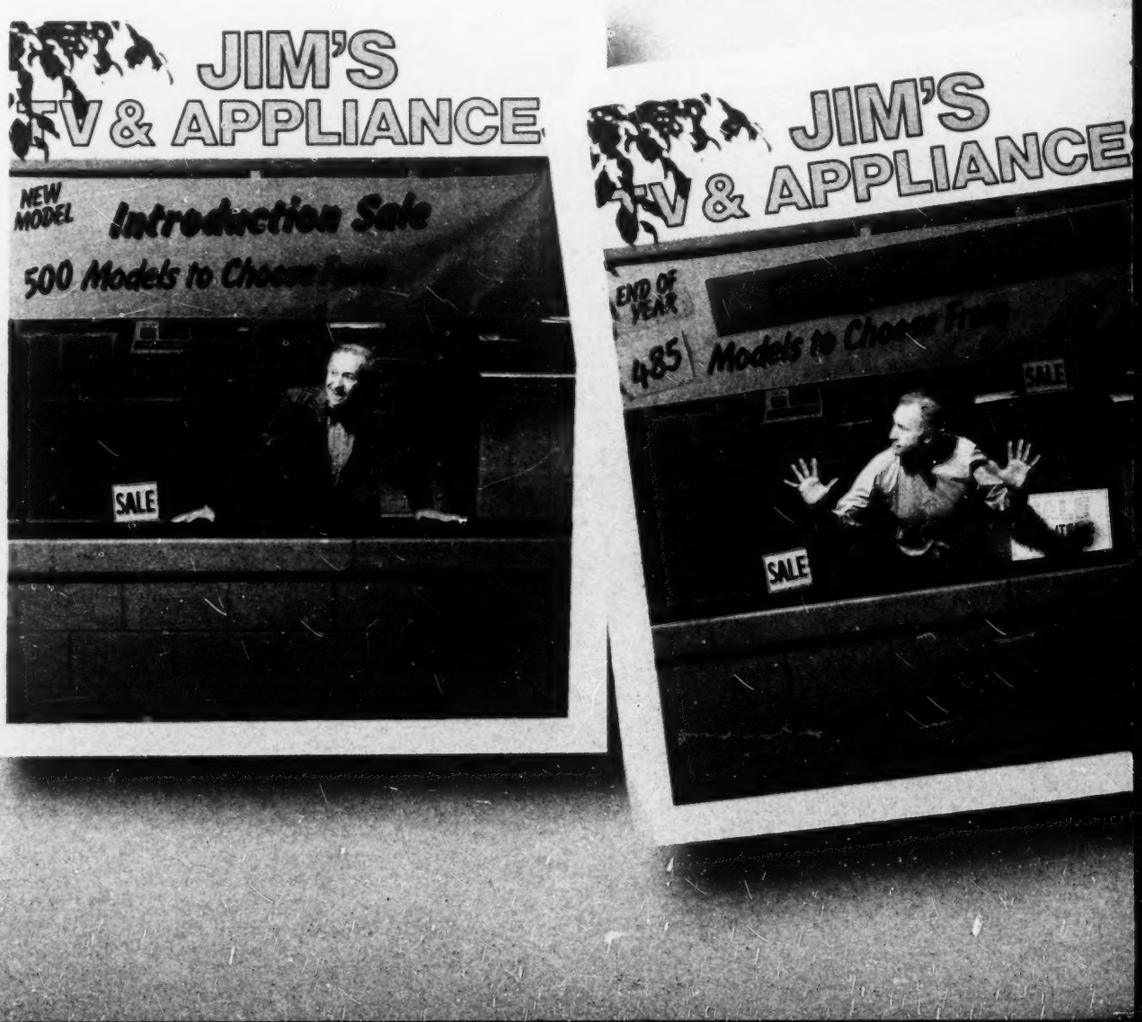
John Pough, owner of Video Cassettes Unlimited in Santa Ana, CA, uses Bonafide Management's Master Video system to analyze the sales and rental activity of his library once a week. Between the two stores he operates, he stocks about 14,000 video tapes.

Learning in a matter of minutes which categories are "hot" helps Pough sort through the 500 new titles that flood the market each month.

"We found that you have to be up on it," he says. "If *Rambo* starts to fall off and you have 50 or 60 (rental) copies, you have to start thinking about promoting them out the door for sale. To sit down and figure out what my customers are buying and renting by hand would probably take a day." □

Bob Ankosko

Sometimes the last thing you think about is who finances your inventory.



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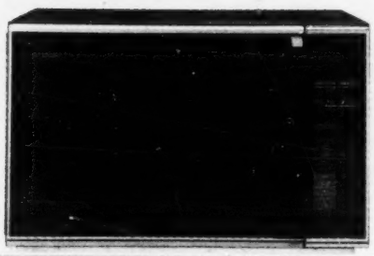
BUSINESS IDEAS FOR TODAY'S RETAILERS AND DISTRIBUTORS

JUNE 1986

GORDON PUBLICATIONS — 25th ANNIVERSARY YEAR



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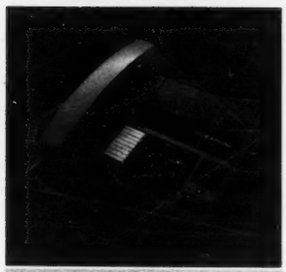
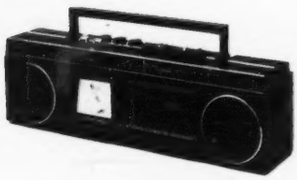
Microwaves may be getting smaller, but they've never been more feature-packed.



TELEPHONES

Smart answering machines lead the way in a category poised for big growth.



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Summer CES brings new features, configurations and profit opportunities.

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The door to mass market video is finally opening at retail.

MART

Business Ideas for Today's Retailers and Distributors

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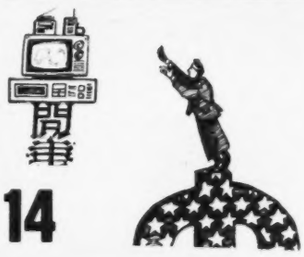

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VBPA ABP

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Americans hooked on video

In-depth VCR market study reveals that intent to buy is strong among owners and non-owners.

The video cassette recorder has become such an integral part of America's home entertainment psyche that 95 percent of all VCR owners say they would replace their machines — much like they would a TV set — should it fail beyond repair.

In fact, it appears that we're gradually becoming hooked on home video. During a typical week, VCR owners — who now represent more than a third of all TV households — spend an average of 9.3 hours playing video cassettes and 6.1 hours recording their favorite shows. It looks as though the "TV generation" may indeed be replaced by the "VCR generation."

These are just a couple of the many interesting findings of an in-depth VCR market study released by the Electronic Industries Association. The report confirms something that most of us have suspected for a while now: The VCR is here to stay and is destined to follow in the ubiquitous footsteps of television. But beyond that, it also sheds light on which factors most influence a purchase decision, the VCR's performance record, and how second-time and replacement purchases fit into the scheme of things.

Prepared under the direction of the EIA's Consumer Electronics Group by Market Facts Inc., the survey was conducted during the first two months of this year. A nationally representative sample of 10,000 households received questionnaires, and 75 percent — or 7,525 U.S. households — responded.

The VCR market has reached the point where a substantial market for second VCRs and replacements is now developing. Forty-one percent of current VCR owners indicated the intention to buy a tabletop VCR over the next year. Current owners also are very intersted in adding other video products to their electronics collection. More than half said they were likely to buy a video camera or camcorder, indicating that this product category's upward trend should continue.

Furthermore, of the VCR owners expecting to purchase another VCR during the next year, 56 percent said it will be an additional unit for another room or individual in the household. 27 percent indicated that it will be to upgrade the main VCR, and 17 percent said the new unit would replace a VCR that will no longer be used.

As for those consumers who have not yet jumped on the video bandwagon, more than two-thirds said they intend to buy a VCR. Only 10 percent, however, expressed the likelihood of buying a camera or camcorder, confirming what many manufacturers have been saying all along: Until they get their feet wet with a VCR, consumers are not as likely to be interested in a camera. Renting a VCR is a primary factor leading to the purchase of a video product. Seventy percent of non-VCR owners who have rented said they were "very likely" or "somewhat likely" to purchase a VCR in the next 12 months.

The format of choice, as expected, is overwhelmingly VHS. 8mm is on the minds of 2 percent of consumers who intend to buy a video recorder, while Beta is the format of choice for 15 percent of the non-owners. The 15 percent figure may be overstated, however, due to consumer confusion, the EIA notes.

Of current VCR owners who plan to make additional video hardware purchases, 10 percent chose Beta and 4 percent chose 8mm, indicating perhaps that the awareness level of the new 8mm format is higher among VCR owners than the general public.

The study concluded that at the end of 1985, about 35 percent of all American households owned video recorders. This number is inflated by a couple of percentage points, the EIA believes, because of enthusiastic respondents who intend to purchase a VCR but filled out the questionnaire as if they had already bought one.

While 15 percent of all VCR owners reported having two or more machines, the mainstay purchaser is still the first-time buyer who accounted for 83 percent of all sales last year. Remaining purchases were split almost evenly between replacements, upgrades and additional machines. But, as indicated earlier, replacement and upgrade purchases appear to be on the rise.

The base of American VCR owners is certain to broaden as prices fall, but today's typical video household is still larger, younger and has a higher than average income. Fifty-six percent of VCR owners are part of a household with three or more people; 61 percent have an annual income of $25,000 or more; and 53 percent are headed by persons under 40-years-old. Take note, because this household will continue to be the best market for sales in coming months.

Not surprisingly, 90 percent of the VCRs acquired in 1985 were VHS format. VHS's market share has risen from 71 percent in 1980, while Beta's share has dropped from 25 percent in 1980 to 9 percent in '85. By the end of last year, the fledgling 8mm format had captured a one percent slice of the pie.

The average price paid for a VCR has dropped 40 percent; from $728 in 1981 to $420 in 1985. And for those machines purchased last year, picture quality, format and price were cited as the three key purchase factors. Buyers of VCRs costing more than $500 placed more importance on a number of other factors, including manufacturer's reputation and special features, than those who purchased less expensive units.

Over time, only two factors revealed a clear trend — price and stereo capability. Both of these considerations became important to an increasing number of buyers between 1981 and 1985. Last year, for example, price was cited by 72 percent of all VCR owners as very important, while stereo was termed very important by 28 percent.

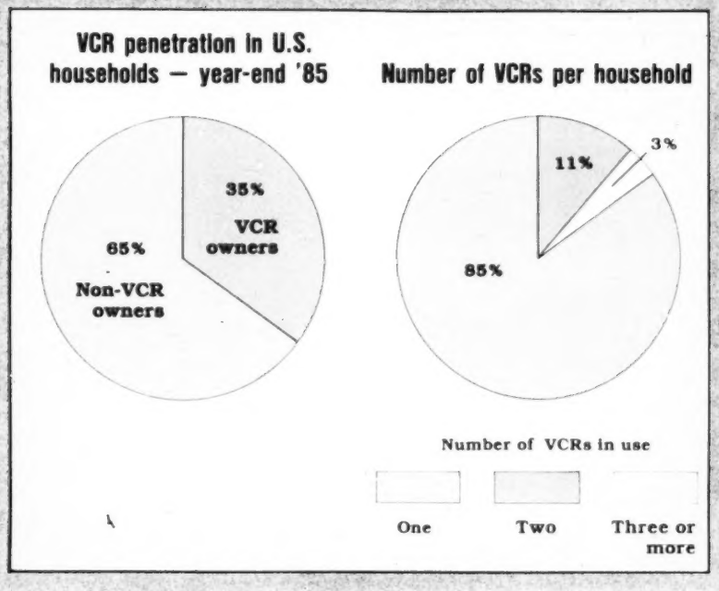
Features most common to VCR's purchased in 1985 were high speed forward or reverse (92 percent), cable compatibility (84 percent), wireless remote control (71 percent) and one-touch recording (66 percent). More than one-third of the decks purchased last year were either stereo or hi-fi models.

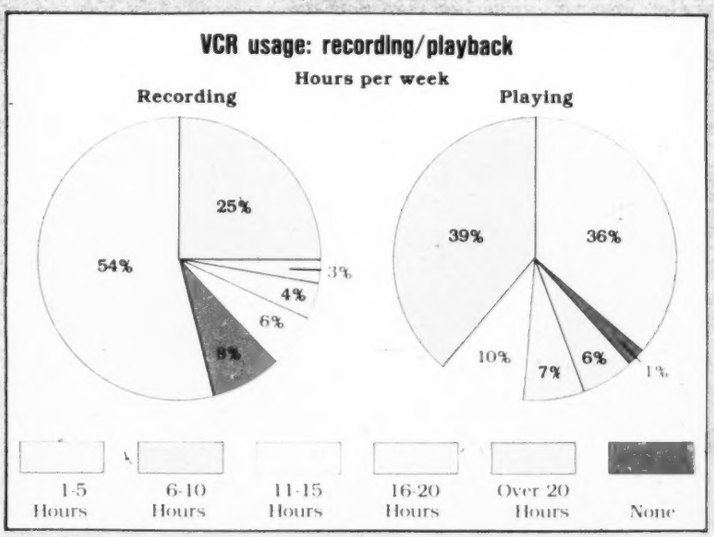
So far, the VCR has proven to be a reliable product. Although 43 percent of the VCRs purchased in 1981 have been serviced or repaired at least once — and 39 percent of these were done at no charge to the consumer — 93 percent of those machines are still working.

Retailers with a service department will be happy to know that a steadily increasing number of consumers are looking to them as *the* place to bring merchandise that needs fixing, instead of the traditional TV/electronic repair shop. Use of the latter outlet has witnessed a steady decline in the last five years.

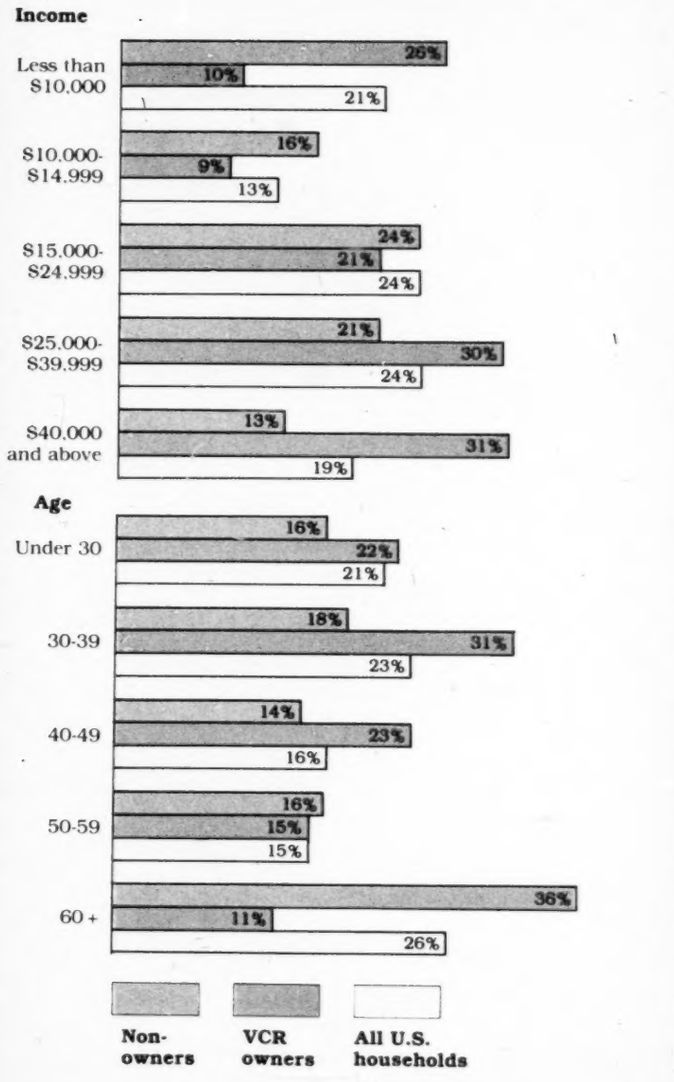
One final point to keep in mind — especially around the holidays: More people are looking to the VCR as that perfect gift. Last year, 21 percent of the VCRs sold were gifts. Now, if we could only tie the rising interest in stereo sound in with that . . . □

Bob Ankosko

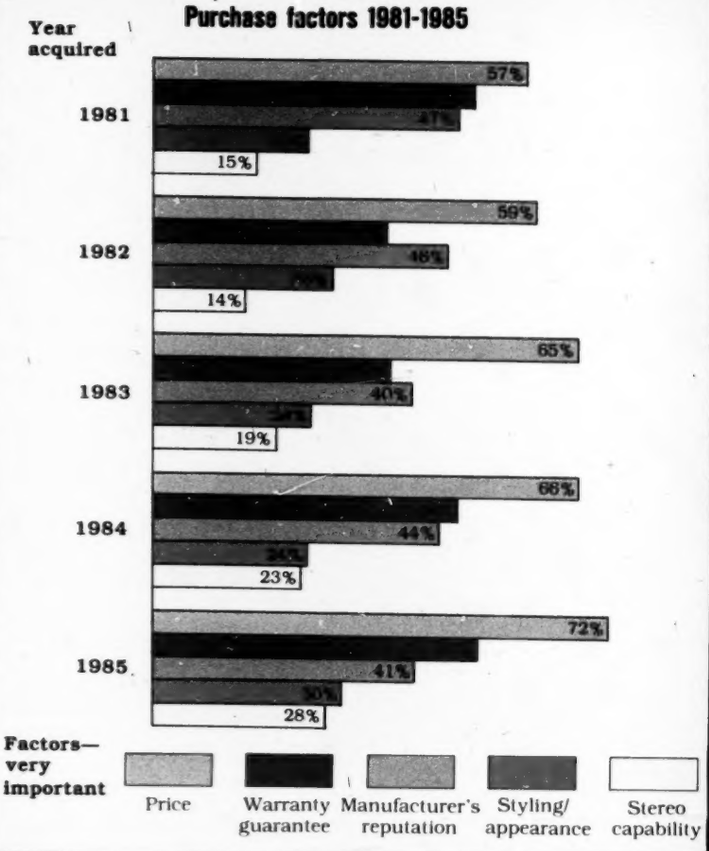




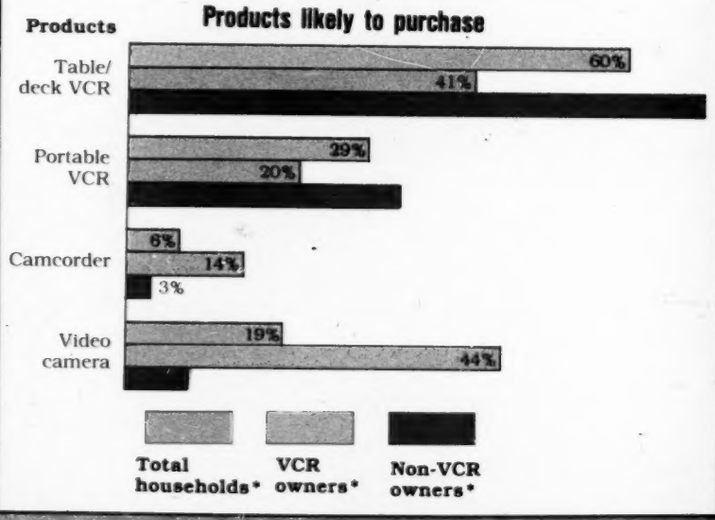
VCR owners/non-owners: income and age



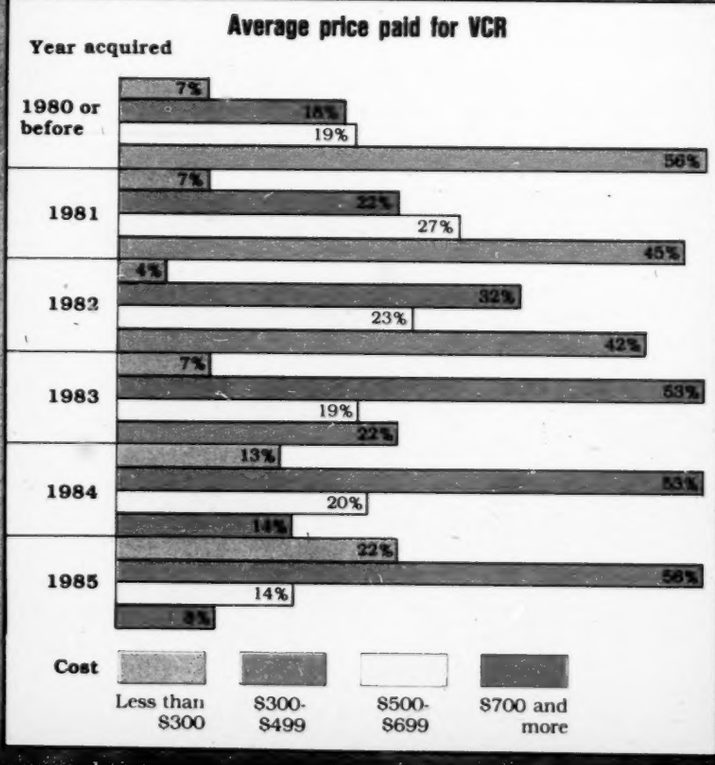
Purchase factors 1981-1985



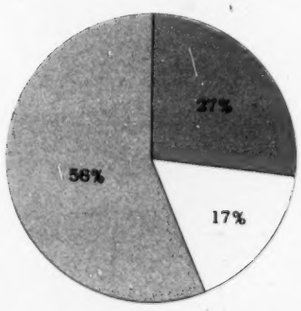
Products likely to purchase



Average price paid for VCR



Reasons for planned purchase — VCR households



Reasons %

- Replacement VCR
- Upgrade current main VCR
- Pure additional VCR

The dollars and sense of selling video

With retail sales revenue from prerecorded video cassettes expected to reach $2.1 billion this year, there's reason to stop and take notice.

When most people think about retailing prerecorded videocassettes they think of folks dropping by the corner video shop and plunking down $2 for an overnight rental of *Beverly Hills Cop*. And by and large, that's what the video business has been all about. *So far.*

But American consumers spent almost $1.2 billion last year to *buy* videos for their permanent home libraries. This year, retail sales revenues from prerecorded cassettes are expected to nearly double to $2.1 billion. (See chart.)

At a minimum margin of, say, 30 percent, that works out to $630 million in retail profits this year, based on a projected 60 million sales transactions. "Consumers *will* buy if you make the product available to them," says Lieberman Enterprises senior VP Jim Hanke.

The principal reason for this upsurge in video sales is the declining retail price of many types of programs. Children's programming selling for $10-$12 abounds. How-to tapes, classic movies, video travel guides, exercise programs and music videos can all be had for under $20.

This phenomenon is bringing sweeping changes to the business of retailing prerecorded video. Though the overnight rental is still the overwhelmingly dominant mode of transaction, sales are expected to account for 38 percent of the total retail revenues generated by video this year. *Cassette sales will account for half of all retail revenue in 1988 and will exceed rental revenue by the end of the decade*, according to industry research.

A significant amount of the $2.1 billion spent to buy prerecorded cassettes this year, moreover, will be spent in outlets other than video specialty shops. Convenience stores, supermarkets, drug stores, discounters, book and record stores and other mass merchants and large volume retailers will all have their shot at a piece of the action.

Today it is feasible to get into the business of *selling* prerecorded videocassettes without also having to establish a costly, labor-intensive rental operation.

Lieberman, a major rack jobber, turned $9 million in sales of prerecorded videocassettes through 767 racked departments in 1985, according to Hanke. "We expect to do about $15-$16 million in sales in 1986," he adds.

During the Christmas season last year Lieberman did a big push in its racked departments on cassettes retailing for $19.95 to $24.95. The effort resulted in the sale of 152,000 units worth about $3 million.

Admittedly, a number of artifacts of the entrenched rental orientation of the video software business will have to be modified if mass marketing video is to be a long term success. The most important of these — margins, dating and returns.

Compared to other mass market items such as books or toys, retail margins on prerecorded video are somewhat slim — traditionally about 30 percent if sold at list price. As prices have declined, though, retail margins have been further squeezed.

But the entry of book publishers, toymakers and other packaged goods manufacturers into the business has begun to alter tradition. In marketing video software through their regular toy accounts, for example, Parker Bros., Mattel, Remco, and others have generally set prices and margins to conform to normal levels within that distribution channel.

The conventional video program suppliers, including the major studios and independents, have been wooing mass merchants and other large volume retailers with improved terms, as well. CBS/Fox, Vestron, RCA/Columbia, Prism have frequently voiced their understanding of the need to accommodate volume buyers.

This is being accomplished in part by selling directly to retail accounts, rather than through independent wholesalers, as is typical of the video specialty market. Selling direct allows the supplier to add eight to ten points to the retailer's margin that would ordinarily go to a wholesaler.

"We understand the nature of other retail businesses is different from the video specialty market and we need to adjust," acknowledges Court Shannon, executive VP of Karl-Lorimar Home Video. Karl-Lorimar has been among the most aggressive video program suppliers in pursuing mass market distribution. "But," Shannon warns, echoing the major studios, "we do not plan to give away the store to gain distribution."

The issue of returns has been the most contentious one confronting video software suppliers in their quest for mass market/large volume retailer distribution. Unlike other industries, such as records and books, video retailers have never enjoyed outright returns privileges, but have had to make do with more limited stock balancing programs.

Under a typical stock balancing program, wholesalers and retailers are allowed to exchange 10 to 15 percent of their inventory quarterly for a comparable amount of new inventory. Cassettes are exchanged on a one-for-one basis.

Cracks have already begun to form in the program suppliers' united front, however. In the fourth quarter of 1985, several suppliers, including major studios such as Paramount, were offering some mass merchants 100 percent returns.

Don Edwards, who is in charge of Waldenbooks' audio and video departments, cautions program suppliers, "Don't expect a buyer to take less than a 50 percent returns allowance — and more likely 100 percent — and 120 day dating on at least 60 percent of his total purchase — and probably 100 percent."

Lieberman chairman David Lieberman believes terms will probably settle around 25 to 30 percent — roughly comparable to the record industry. For untested product, as again is true in the record industry, 100 percent may be offered in the hope of obtaining shelf space. □

Paul Sweeting

'We understand the nature of other retail businesses is different from the video specialty market and we need to adjust.'

Court Shannon
Karl-Lorimar

Dating policies between program suppliers and video specialty dealers have also been more restrictive than large volume retailers are accustomed to. Video software wholesalers generally have terms of net 30 days with the suppliers, secured by letter of credit. Meanwhile, nearly half of video specialty dealers are on a C.O.D. basis with their wholesalers. Of those that do have credit, terms are again generally net 30 days.

Competition from program suppliers coming to the video market from other industries is helping change that situation as well. Already, several suppliers have begun offering 120 day dating on mass market product.

Sales of Prerecorded Videocassettes to Consumers

Year	Total retail revenue from prerecorded video	Retail revenue from sales	Percent of total
1986	$5.9 billion	$2.1 billion	35.5%
1987	$7.2 billion	$2.9 billion	40.3%
1988	$7.7 billion	$3.6 billion	46.7%
1989	$7.6 billion	$3.9 billion	51.3%
1990	$7.6 billion	$4.0 billion	52.6%

Source: Video Marketing

The total retail market for prerecorded video in 1986 will total $5.9 billion. Of that, $2.1 billion will be accounted for by sales (rather than rentals) to consumers. By the end of the decade the market will total $7.6 billion, including $4.0 billion from sales of cassettes.

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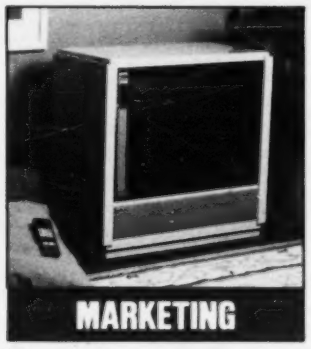
BUSINESS IDEAS FOR TODAY'S RETAILERS AND DISTRIBUTORS

JULY 1986

GORDON PUBLICATIONS — 25th ANNIVERSARY YEAR

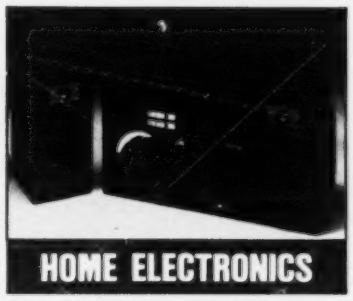
CES WRAP-UP

Chicago show ushers in unique products and a little controversy.



MARKETING

Zenith emphasizes bigger screens and aggressive advertising.



HOME ELECTRONICS

N.A.P. bows 150-plus products and global marketing strategy.

APPLIANCES

Consumer demands are leading to larger, feature-packed refrigerators.

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APASIO 040
SRI CONGRESS INFO SERVICES
JEANNE LONG ACQUIS/EDITOR DIR
4520 EAST WEST HIGHWAY
BETHESDA MD 20814

JAPANESE APPLIANCES: Is The Push On?

MART

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Just A Minute!

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Japanese appliances: Is the push on?
Armed with greater brand recognition, Japanese electronics makers are stepping up activity in the U.S. appliance market

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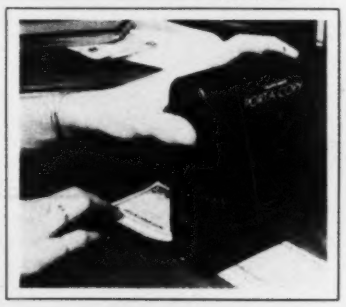
Computer charts retail course
Florida-based company helps home electronics/appliance dealers operate more efficiently.

HOME ELECTRONICS



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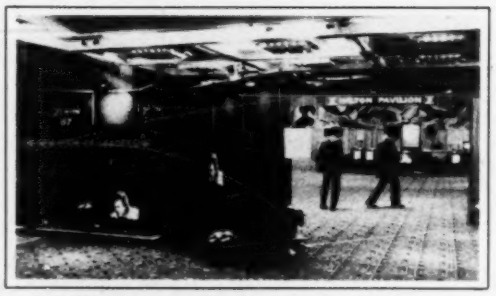

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New consumer needs driving refrigerator design

The changing nature of consumers is leading to larger, more sophisticated refrigeration products. So finds industry giant General Electric, which recently presented the press with an analysis of today's refrigerator industry. Among the company's findings were that average capacity of refrigerators has been growing at a steady rate, and that recent shifts in everything from meal patterns to food packaging are placing new demands on refrigerator design.

John Higgins, GE's general manager of refrigeration products, says the average capacity of refrigerators has been going up at a rate of about one-tenth of a cubic foot every couple of years since 1979, from 18.5 cubic feet that year to 18.9 cubic feet in 1985.

"We think this is a long-term trend," Higgins says. "Consumers are really looking to put as much cubic foot of horsepower in a kitchen cutout as they can, the only limiter being the industry's preferred cutout."

Consumers are also more knowledgeable and more demanding today in choosing a refrigerator, the GE exec says. But before looking at features, among the key factors considered is brand experience. "We find something like 57 percent of consumers will actually repurchase the brand that they have in the house."

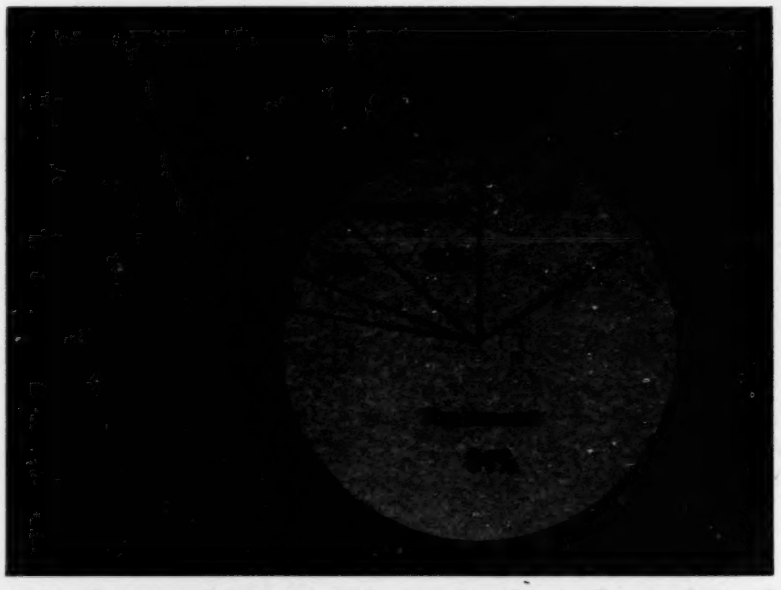
Other primary factors include the amount of kitchen space available and internal capacity. Internal arrangement is also very important. "Customers go into a retailer and open up that refrigerator and they'll stare at it, and what's going through their minds is: 'What are my needs?' They look at the depth of the veg bins, the adjustability of the shelves and whether or not they're removable and easy to clean."

Pricing is obviously another important consideration, along with the attractiveness of the unit and certain features such as no-frost freezer operation. A refrigerator's ability to preserve food and flexibility of temperature and humidity controls are also examined.

Surprisingly, reliability and durability, warranty, service and energy efficiency are secondary purchase considerations to those mentioned above, GE discovered. "I think most consumers tend to think of all refrigerators as being reliable and durable, and everybody has a standard warranty," Higgins points out.

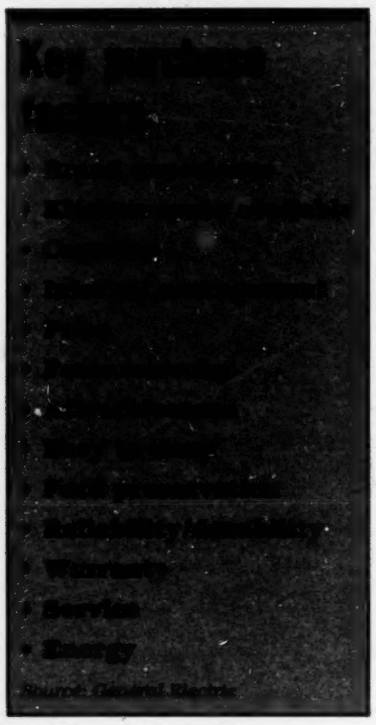
General Electric's study also identified new customer trends. First among these are that women are more busy in general, and more women are now working. Meal patterns are changing, with fragmented meals — members of the family eating separately — becoming more common. Also more common is the "continuous meal" in which people are at the refrigerator more often throughout the day. Both situations place greater demands on refrigerator design.

Consumers are also shopping less frequently, GE found. "People don't want to shop, so they'll load up and try



to do it for two weeks at a time and then do fill-in shopping for milk and bread and so on," Higgins observes. "So you've got tremendous capacity demands on a refrigerator."

Frozen food development is on the upswing due to the popularity of microwave ovens, which are now reaching 60 percent saturation in U.S. households, while fresh foods are also becoming a larger part of American diets, Higgins says. Each of these



creates new space and storage considerations for refrigerator engineers, along with the growing popularity of larger food packages, such as gallon containers for milk and juice.

"We now have to work within common width, height and depth dimensions, and satisfy these trends," Higgins concludes. □

Rob Sabin

GE zeros in on refrigeration

"Focus" is a key word around General Electric these days, says general manager of refrigeration products John Higgins.

According to Higgins, since Roger Schipke became group executive for major appliances in 1982 the company has reassessed its role in the major appliance industry. The result has been a division of the product line into "core" businesses (refrigerators, primary cooking products, dishwashers and home laundry) and non-core businesses (microwave and room air conditioners).

The core businesses became the priority for capital dollars, and more important, Higgins says, for precious talented manpower. Meanwhile, non-core businesses were developed by sourcing from overseas manufacturers who were already producing cost effectively.

The effects of this restructuring have surfaced during the last two years. All told, $500 million has been sunk into the refrigerator division in that time, with $100 million going toward an automated factory in Columbia, Tennessee to produce a new, more efficient rotary compressor.

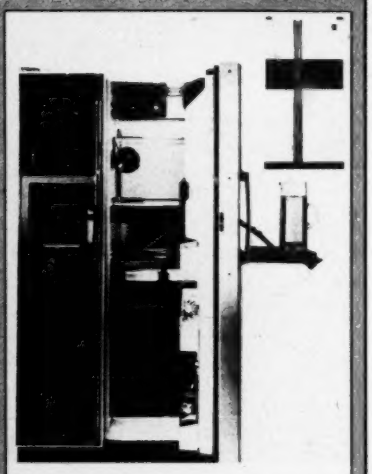
Virtually every model has been updated since that time. New units were added to fill in sizes in the important top-mount category, which captures the bulk of industry sales, and a total redesign is in the works. Side-by-side offerings have been strengthened with the introduction 24-cubic-foot models with electronic control, and most recently, with the addition of a 27-cubic-foot unit that is viewed by GE as much as a statement of technology as a refrigerator.

The company has also moved into niche product categories that it had previously left untapped: compacts were added in 1985, and bolstered with two "deep-door" models this year. 1986 marks the debut of a first bottom-mount unit, and a recently announced line of chest and upright freezers as well. No potential stone is being left unturned.

Most notable among the new entries is the 27-foot side-by-side, dubbed SpaceCenter 27. According to GE, the unit addresses virtually every consumer need currently asked for in the marketplace. Capacity has been extended three-cubic-feet from GE's previous top-of-the-line, without violating the standard size cutout width of 36 inches (height has been increased by two inches and depth by 1½ inches to gain the extra capacity).

To handle one gallon jugs or three liter bottles, the doors have been fully redesigned with new stable shelving and ducting from the freezer to keep containers as cold as they would be if they were on an interior shelf.

For convenience, the unit includes a water/ice dispenser on one door, and on the other, a Refreshment Center door/countertop for easy access to drinks and snacks. Added to the GE line for the first time are Quick Serve food containers that slide from racks beneath the top shelf and pop directly into a microwave. An electronic system monitors operation for improved reliability.



GE calls its SpaceCenter 27 the state-of-the-art in refrigerator technology.

"In my opinion, this is the most innovative product to hit the market since the original water and ice dispenser back in the late sixties," Higgins says.

The unit should retail for $1,800-$1,900, and even at that price, Higgins expects the model to account for as much as 20 percent of the company's side-by-side sales in its first year. □

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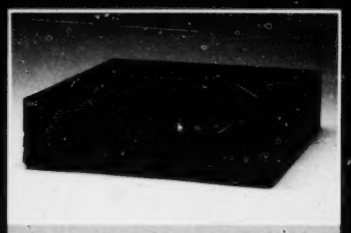
AUGUST 1986

GORDON PUBLICATIONS — 25th ANNIVERSARY YEAR

VIDEO SOFTWARE

VSDA's Mickey Granberg offers a front row perspective on the changing market.



HOME ELECTRONICS

Innovative twists in video hardware bring some new angles on profits.

TELECOMMUNICATIONS

Exciting technology and low price points typify the latest offerings.

APPLIANCES

MART charts the range of product available today from overseas suppliers.

THE RISE AND FALL OF PACIFIC STEREO

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VSDA Special

MART

Business Ideas for Today's Retailers and Distributors

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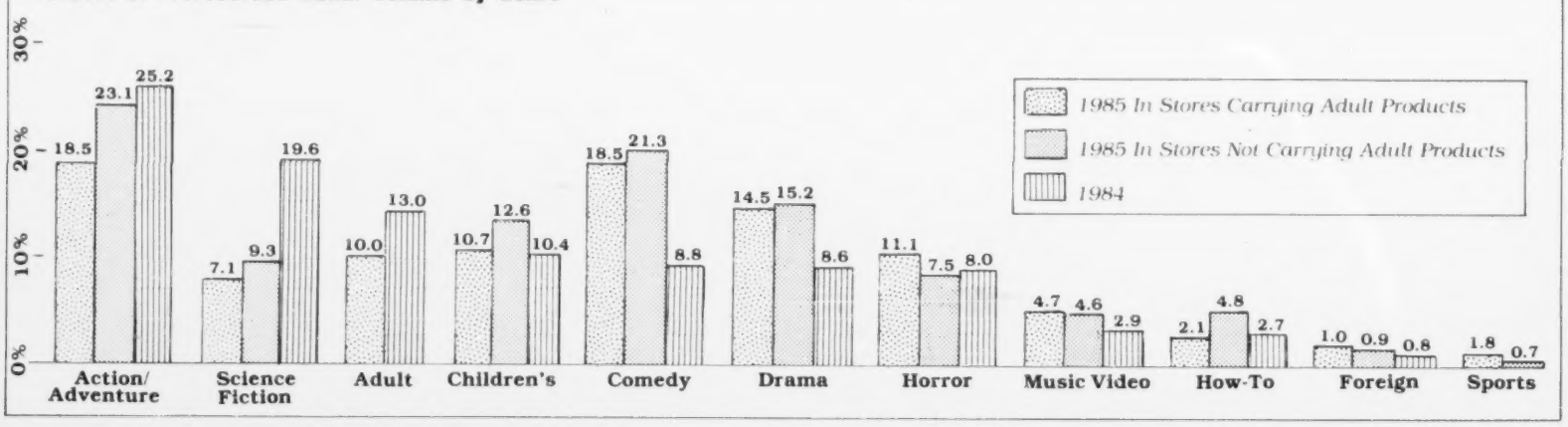
Highlights from VSDA's annual membership survey

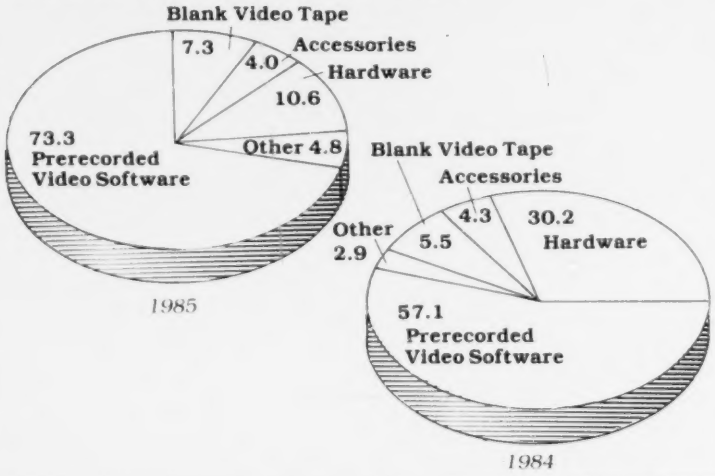
The findings presented here are based on statistical data provided by 40 percent of VSDA's membership on February 1, 1986. The association has more than 3,000 members representing some 14,000 stores. "Prerecorded" refers to prerecorded video software.

Percent of Prerecorded Dollar Volume: Sales Versus Rentals

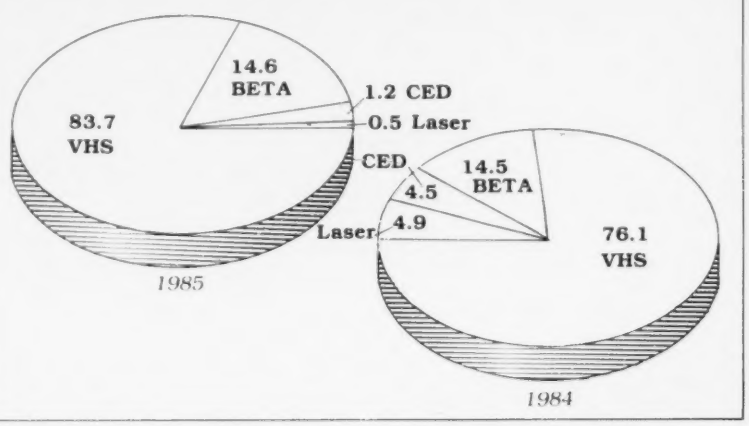
Percent of Prerecorded Dollar Volume by Genre



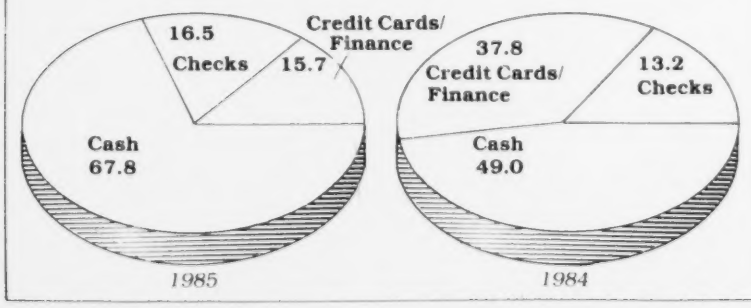
Percent of Total Dollar Volume by Product Category



Percent of Prerecorded Dollar Volume by Format



Percent of Total Dollar Volume Done In ...



	1985	1984
Average Prerecorded Video Software Sale Transaction	$ 37.23	$ 42.66
Average Prerecorded Video Software Rental Transaction	2.66	Not Available
Average Number of Titles Per Store	1,968	1,578
Average Number of Inventory Units per Store	2,589	2,321
Average Number of Stores per Owner	7	4.6
Average Number of Full Time Employees	3	3.2
Average Number of Part Time Employees	4	3.0

Extending the limbs of distribution

Video software is blazing uncharted territories, and finding new locomotives to pull the gravy train

The shift in distribution strategies for prerecorded videocassettes has paralleled two developments in the home video market. The first is the proliferation of VCR households, from 83,000 in 1976 to an anticipated 36 million at the end of this year. Next is the expansion of interest in fare other than contemporary hit films, which once accounted for better than 95 percent of the market in the early 1980s, and now represents about 70 percent of program supplier shipments to dealers.

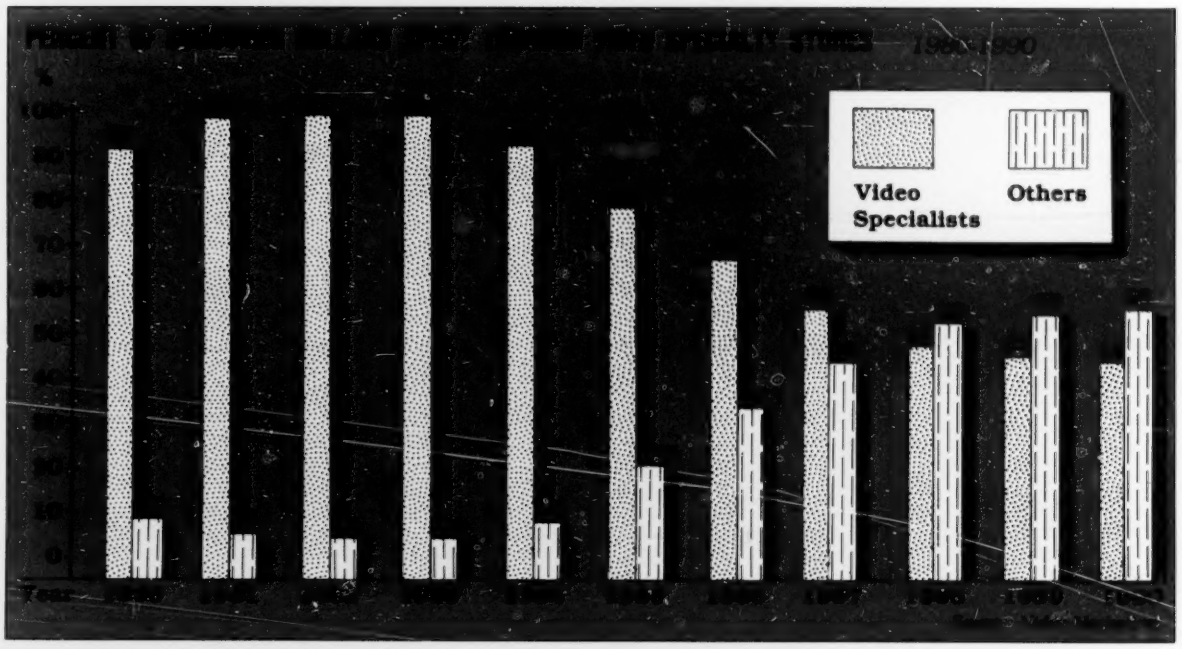
The growth of the VCR, and the broadening demographics of the VCR household, has attracted mass merchants and large volume retailers eager to participate in the video boom. As a result, video software specialty dealers, who grabbed 91 percent of the prerecorded video market in 1980, will capture 67 percent of the market this year. And their share could drop to 44 percent by 1990.

Looked at from the other side, non-specialty outlets—including direct marketing (by mail and TV/cable advertising), book stores, record stores, convenience outlets, supermarkets, drug stores and others—were buying only nine percent of program suppliers' output in 1980. That figure should hit 33 percent this year, and 56 percent by 1990.

At least 90 percent of prerecorded videocassetes of feature films are funneled through the approximately 20-25 major wholesale distribution operations in the U.S. The three largest—Des Moines, Iowa's Commtron; Niles, Illinois' Sound/Video Unlimited and New York City's Metro—account for approximately 50 percent of the market. The overwhelming majority of cassettes handled by these wholesalers are bound for video specialty stores.

Industry pricing is structured to give the wholesaler margins of 10-12 percent, but margins are frequently pushed into 7-8 percent range on the hottest titles because of competition and the need to meet program suppliers' quotas. Retailers typically purchase inventory from 2.6 wholesalers in a three month period, though the Hollywood studios and independent suppliers have attempted to encourage greater loyalty by cutting the number of wholesalers they use in any given area.

While the studios and independents are maintaining the wholesale channel for distributing feature films to video specialty dealers, they are also looking to supply larger accounts directly. Their efforts have not met the enthusiasm the studios had hoped for. CBS/Fox, for example, had anticipated selling at least 50 accounts direct by June of this year, but had lined up only a dozen.



But direct sales can be expected to gain momentum thanks to the large base of installed VCRs and the program suppliers' increased emphasis on pricing video to sell. Indeed, the average retail price for a prerecorded cassette (including all program genres) is projected by *Video Marketing Newsletter* to fall from $41.52 last year to $17.25 in 1990.

The extravagant success of non-theatrical titles such as Jane Fonda's various exercise tapes, and *The Making of Michael Jackson's "Thriller"* have frequently misled people into unreasonable expectations for non-film programming. Alas, there is no standard pattern in the sales or distribution of such fare.

Though program suppliers have often complained of a lack of interest shown by specialty dealers and wholesalers in non-theatrical programming, the market for special interest cassettes remains a significant factor not so much in unit as in dollar volume—particularly at the retail level. The reason? Non-film fare *sells* rather than rents.

The low unit volume, compared to feature films, means that wholesalers are less interested in such programs. Similarly, video specialty retailers who are geared to renting cassettes do not want to tie up capital in slower moving sale items. Thus the distribution and sales of non-theatrical programming is falling to alternative hands.

The prospects for non-theatrical fare are greatest in specialty stores and/or departments catering to the subject area—golf and fishing tapes in sporting goods outlets, for example. This often means cultivating highly specialized distribution through operators servicing those stores with other types of merchandise.

This strategy has been successfully employed by 3M for about two years: 3M distributes a line of fishing tapes to outlets carrying its fishing tackle. Such alliances can be expected to cut across the full range of mass merchant and large volume retailers as these outlets, and other non-video specialty dealers pull toward their 56 percent share of the home video market in this decade. □ *Ira Mayer*

SUPER SELL-THROUGH SUPERMARKET—Distribution may be shifting away from the specialists, but one video retailer has grabbed the bull by the horns to make sure it doesn't get away. On June 8, New York's Video Shack added a second tier to its sales-only location at Broadway and 49th Street, featuring some 10,000 titles spread out over 12,000 square feet. Most important, the new Superstore brings the cassettes out from behind the glass, so customers can get their hands on them. The result: Video Shack says the average number of tapes per customer has doubled from two to four in the store's first eight weeks.

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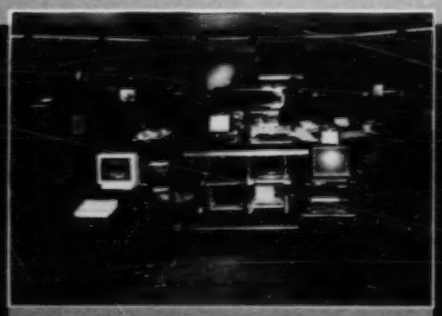
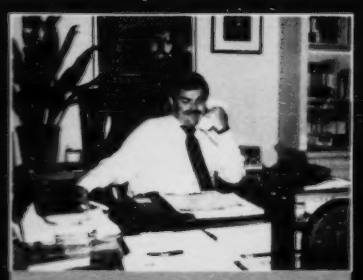


THE HOME OFFICE

Yes, Virginia, there is a market. And the pioneers are already staking their claims.

TELECOMMUNICATIONS

The holidays should make fat cats out of TCRs if the push isn't too low key.



EXECUTIVE SPOTLIGHT

Paramount's Klingensmith: "If the U.S. is not totally aware that you can buy video after Christmas, then we can all go back to high pricing."

APPLIANCES

Laundry sales for '86: Spinning fast, or just another basket case?

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INDEPENDENTS: Dancing With The Big Boys

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Business Ideas for Today's Retailers and Distributors

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Independents: Dancing with the big boys

Despite competition from massive chains, small independents are holding their own. Elliot King traces their moves.

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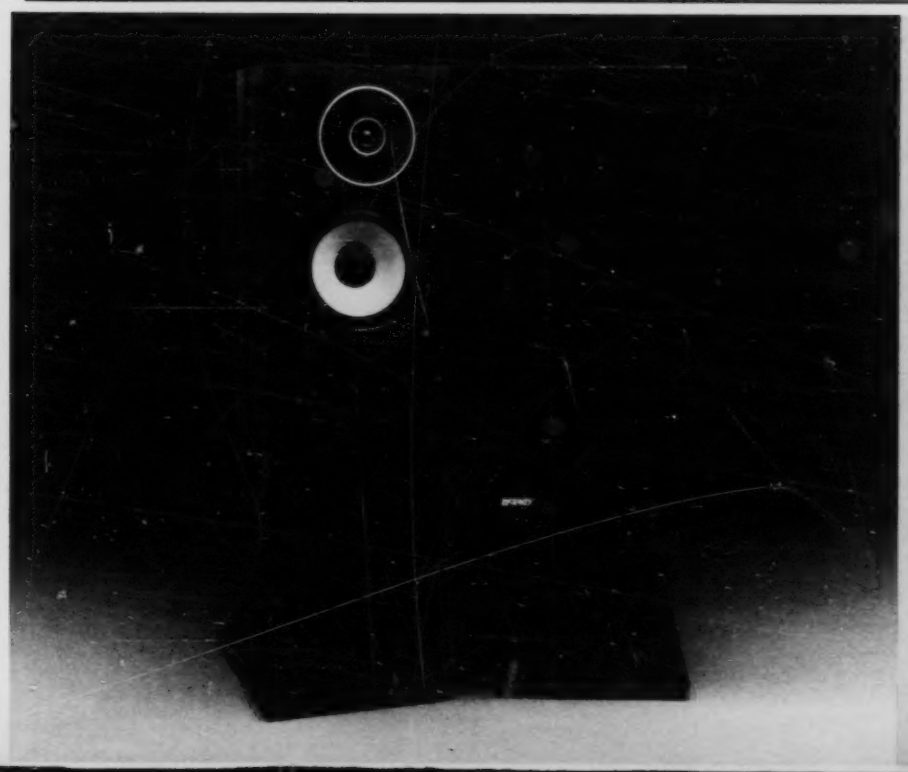

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Gearing up for home office sales

The climate appears ripe for sales of home office products. Manufacturers and retailers alike are multiplying their efforts to reach this growing segment. The question is, how high is up?

by Henry Fersko-Weiss

Until recently the home office market was hidden behind the mantle of small business. There was no doubt that the market existed. The question was how to reach it.

Now, manufacturers and retailers are targeting the home office with direct advertising and a well rounded mix of products. Sales projections are soaring, and most everyone agrees that the office market is finally coming home.

"There's a lot of excitement about the home office market because the consumer electronics industry is having a hard time—companies are watching their profit margins shrink," says Chris Jackson, an analyst at the Yankee Group, a research and consulting firm in Boston. "They're learning that they have to split the market up into smaller pieces and do a better marketing job. So they're scrambling to identify market segments that will be profitable. The home office is seen as such a market and has now become a prime target."

More than just an arbitrary segment of the small business market, the home office market is a natural grouping of users who are just now being recognized.

"The home is one of the fastest growing work places," relates John Widlicka, of Sharp Electronics, in Mahwah, New Jersey. "According to government statistics there are 30,000 businesses born each month, and many of these are in the home," Widlicka explains. "There are already 6 million reported offices at home, and nobody knows how high is up: it's a tremendous opportunity." Widlicka is general manager of the Personal Office Equipment Division created by Sharp in August to spearhead its drive into the home office market.

Industry people throw around many different numbers on the size of the home office market. Most frequently quoted is 23 million—a number that comes from the U.S. Census Bureau. But Census data can be unreliable. Probably the most reliable numbers come from Electronic Services Unlimited (ESU), a New York-based research and consulting firm specializing in work-at-home.

According to an extensive survey the company did in January, there are 10.6 million households with home workers. This number includes both home-based businesses and corporate employees who do a "significant" amount of work at home. While there are some differences in the buying patterns of these two groups—home businesses tend to buy more copiers, for example—more than 10 million homes are ripe for office equipment.

This past spring, the Yankee Group did its own market analysis, called the Telephone User Tracking Study. It came up with 4.9 million full-time home businesses and 3.2 million part-time home businesses. Both studies made an important discovery: the market is wide open. Even products that have been sold into homes for years, such as telephone answering devices (TADs) and personal computers, have achieved relatively small market penetration: 27 percent and 37 percent, respectively. Newer products that are beginning to symbolize the modern home office, such as personal copiers and compact facsimile machines, are just slivers on a pie chart: seven percent and two percent respectively.

Both studies indicate that home office workers are eager buyers. Their purchasing plans this year indicate a 50 percent growth rate for copiers and 75 percent for faxes. Even sales of personal computers and TADs are expected to grow at about 29 percent annually.

Research firms decline to estimate how fast the home office phenomenon is growing. It is too new and the market is difficult to define, they say. But an estimate based on U.S. Chamber of Commerce statistics puts the market at 15 million by 1990. Numbers aside, nearly everyone agrees the market will continue to grow.

"There are four driving forces to the market, and they are all likely to continue," says Tom Miller, director of research for ESU. "The first is the large number of women returning to the work force. A substantial number of them start home businesses or sell out of the home. Second, is the rise in the entrepreneurial spirit in America and the interest in small business. The kitchen table is often the proving ground for small businesses.

"Third, is the personal computer, which has made it possible to do more varied work at home and to telecommute to the office. Fourth, is a group of quality-of-life factors. This includes a desire for more family time or more leisure time, a desire to commute less or earn extra income."

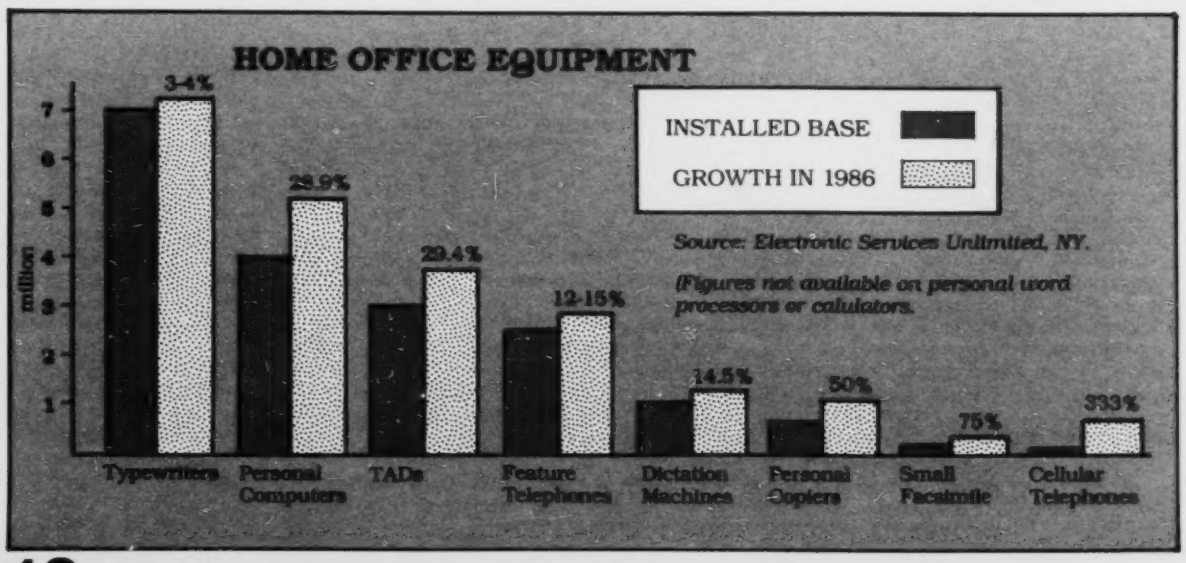
These forces are reflected in the makeup of the home office population. Although virtually every occupation is represented, the majority of people are either business professionals—accountants, managers, analysts, and so on—or in service occupations—home construction, electrical, nursery care, etc. Another large category is sales.

Consumer electronics companies are just beginning to awake to the potential of the home office market. Even companies that brought out products suitable for this marketplace early on, have only recently focused their attention to it. Canon U.S.A., Inc. is one example. The company pioneered the personal copier field by introducing its PC20 copier in 1983.

Canon first sold its copiers through traditional copier dealers. After that it sold through computer and electrical appliance stores. Finally, it moved into mass merchants, and just recently service merchandisers and catalog houses. It wasn't until 1985, says Ted Morikawa, product manager of the personal copier division, that the company attempted to distinguish between home, personal use and small business use.

"In the first quarter of '85, the sales breakdown was 11 percent for personal use and 89 percent for small business use," Morikawa says. "By the fourth quarter the personal use had increased to 19 percent."

Still, Canon feels its copiers are not yet ideally suited for home office use. "We have to study the market more to see what features people are looking for," he says. Morikawa also thinks the ideal home office copier will have to be priced in the neighborhood of $500.



This price was mentioned by Haruo Murase, vp and general manager of Canon's reprographics product group, two years ago in a Wall Street Journal article, when he discussed his idea of a dream machine. This dream is still being pursued by Canon, and represents its plans for future copier products.

Other big players in this market aren't waiting on dreams. Sharp is one of the fastest moving companies, at least in its marketing strategy. Its philosophy is to unify home office products under the banner of one division. It is the first consumer electronics company to do so. "Buyers [retailers] like to be able to deal with one rep rather than having a half a dozen people call on them," Widlicka explains. "Plus, we plan to go into many channels of distribution, from existing office suppliers to retailers, consumer electronics stores, photo stores, catalog houses and discount merchandisers. Overall coordination of this distribution dictates one division."

The first product Sharp's Personal Office Division brought out was a personal copier, called the Z50. It measures roughly 15 x 16 x 8 inches and weighs under 35 pounds. It will copy to paper ranging in size from a business card to an 8-1/2 x 11 inch sheet. The company started shipping the Z50 in September, at a price of $799, which is slightly lower than any copier in Canon's line.

A somewhat bigger unit with one enlargement and two reduction modes, the Z70, ships in December. Despite a press release stating the Z70 would be $1,299, Widlicks suggested that the price actually would be more in line with that of the Z50.

Why did Sharp use personal copiers to tap the home office market? "Some 300,000 copiers will be in home offices by the end of 1986, according to Dataquest," Widlicka says. "By 1990 more than 600,000 units will be sold. And this figure may be conservative, because it doesn't take into account new technology."

Other products Sharp could eventually sell through the Personal Office Equipment Division include typewriters, facsimile machines, calculators, computers and white boards (electronic blackboards). All of these products are currently sold by Sharp into large businesss, but could be redesigned for the home office. The list represents a substantial portion of the products typically grouped as home office equipment. Missing are dictation machines; TADs; feature phones and cellular phones; personal word processors, and some new hybrid equipment that includes personal computers with built-in telephones, and telephones with built-in TADs.

This group of products may represent only the beginning. "There isn't a lot of work being done yet to see what unique products will appeal to these people [home office workers]," remarks Yankee Group's Jackson. "But in the future there will be, and companies will come out with ever more sophisticated equipment, and more of it."

But therein lies a problem, according to Jackson. "Everybody is so anxious to jump on the bandwagon that any market advantage could be quickly dissipated," he says. "There's a lot of pack mentality in the consumer electronics business. A good example is what happened with 'hot' color phones. When these phones were first brought out by Conair and General Electric, both companies were able to achieve increased market share. Then everybody hit on the same idea. There was no way to differentiate products, prices were driven down and now nobody makes any money. There are so many companies poised to attack the home office market that the same thing may happen."

The reason the current mix of products appeals to the home office buyer can be summarized in one word: productivity. It parallels a trend in Corporate America. The personal computer

Bamberger's Willowbrook Mall location in Wayne, NJ features a high-tech styled business center which highlights an array of home office products.

"Canon's new personal copiers are at home in any business."

"Even at home."

Now Canon has personal copiers for every personality.

At work, at home, Canon's line of personal copiers are part of more people's lives than ever before.

Smaller, lighter and uniquely brighter, the distinctive new Canon PC-3 comes in four great colors—red, blue, black and white. So you get a personal copier that's just your style. And, at only 25.5 pounds, with a pop-up handle, the PC-3 is portable enough to go anywhere the work is.

For making multiple copies, the new PC-5 and PC-5L have a convenient multi-stack feeder that accepts plain paper up to letter size (PC-5) or legal size (PC-5L).

What's more, these personal copiers use Canon's new PC Mini-Cartridges that are smaller than ever. They offer five copy colors (black, brown, blue, red or green) and as always, virtually maintenance-free operation.

With so many colors and styles to choose from, it's no wonder only Canon has personal copiers for every personality.

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awakened everybody to how far productivity gains can be made in white collar jobs.

"Home businesses have to get more out of scarce resources—principally time, but money as well," says ESU's Miller. "It's a matter of leverage. For example, a home business can do a mass mailing with a computer and copier and get a lot of mileage for little investment. Before, it would have to be done through a service bureau, which was prohibitively expensive.

Sharp's entre into the home office market was the Z50 mini-copier which lists for $799. Some 300,000 copiers are expected to be in U.S. homes by year-end.

The primary sellers of home office products are likely to be large-scale retailers and consumer electronics stores. But discount merchandisers, warehouse clubs and catalog houses are also joining the fray. The merchants see the same potential the manufacturers do. Some retailers have been consciously marketing to home offices for a couple of years. Others got in and out of the market before it had a chance to jell.

One of the first retailers to target the home office was Sears. For years it grouped electronic equipment together in its stores and offered an Office Equipment and Supplies Catalog addressed to small businesses. Sears clientele is typically the personal shopper or small business.

The company built up a reputation for fair priced merchandise and good service. This reputation made it dominant in the typewriter and telephone markets. When computers, and later, personal copiers came along, Sears found it natural to include these products in the office product area.

Today that area is referred to as the Home Office and Equipment Center. There is no sign to indicate this—Sears uses wall signs for only a couple of departments—but if shoppers ask for the home office center, salespeople know where to direct them.

"The response to our approach has been excellent," says Mike Managan, marketing communications manager at the headquarters in Chicago, Illinois. "The customers we are reaching are Sears' core customers."

Bamberger's—soon to be called Macy's—is another chain succeeding at targeting the home office buyer. In its larger stores is a department offset with an overhead wall sign which reads "Business Center." Shoppers will find computers, printers, typewriters, copiers, cash registers, telephones, and more.

The push to create these departments in Bamberger's started about a year ago, says Bud Pomeranz, vice president of public relations. As a measure of how successful this approach is, Pomeranz says that "no future Bamberger's will be built without a home office department."

Simply grouping products together is no surefire road to success. Bloomingdale's learned this last Christmas and has consequently stopped carrying computers and copiers—two hallmarks of the home office. "We were hardly moving the computers, and we weren't selling the copiers at all," says Shelly Helfrand, manager of the consumer electronics department at Bloomingdale's main store in New York.

The department is leased by Platt Music Co., one of the country's largest retailers. Helfand says he's not quite sure why the approach failed. "Maybe it was the marketing, maybe it was the price," he speculates.

Many computer manufacturers gave up on the home market a couple of years ago. It just didn't seem to materialize. This year will be different, according to ESU's Miller. Home business buyers will surpass corporate employees who do extra work at home in both percentage of market and absolute numbers.

Computer makers may begin to look toward the home again. Canon is only now thinking of focusing on the home buyer. Most of its advertising money targeted the small business buyer, who typically feels more comfortable in the office supply store. Today, manufacturers are starting to spend big dollars to reach the work-at-home crowd and are coordinating that advertising with retailers.

In September, Sharp announced a corporate advertising program of $20 million. Widlicka says that this includes a multi-million dollar campaign for his division. "We're going to promote our products heavily in the national media, such as consumer magazines and newspapers, trade publications, direct mail and collateral store material and eventually television," Widlicka says.

Sears and Bamberger's, too, are ready to heed Sharp's call. "We do a lot of advertising using the home office label," says Pomeranz of Bamberger's. "Of course, we don't do as much as we do for TVs and VCRs, but it's still substantial."

One of the other key elements to success is training of personnel. Sears, for example, has a national staff that makes biannual visits to all the stores. They conduct full day sessions of hands-on training for new product lines. These sessions are also used for questions about other products and discussions of sales technique.

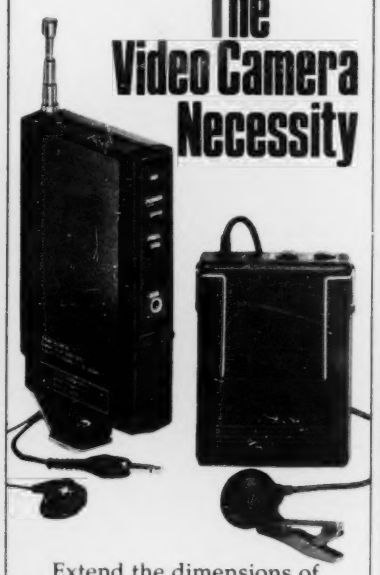
Carrying the proper mix of products is just as important as advertising and training. Pomeranz, for example, notes that sales in Bamberger's Business Centers started taking off when the product mix was broadened. The psychology here is obvious, shoppers buy more when they see more.

Sharp's Widlicka suggests that retailers also carry supplies for the equipment, such as toners, typewriter and printer ribbons, computer software, floppy disks. "The secondary supplies are easy to sell and add a lot to sales," Widlicka says. "We are encouraging all our retailers to support such sales." While having such a large product mix means much larger inventory and a much higher cost to the retailer, the impact on overall revenues and profits seems to justify it.

There are no easy answers to success in the home office market. But the signposts are getting clearer and more manufacturers are becoming involved. We just could be on the verge of the next hot market of the '80s and '90s. □

Henry Fersko-Weiss

The Video Camera Necessity



Extend the dimensions of your video filming capabilities with the AZDEN WMS-10 wireless remote microphone system. Now you can record from a distance (over 100 feet) with up-close clarity, avoiding all extraneous noises.

The Receiver attaches securely to the video camera and plugs into the ext. mic. jack. It even has a monitor earphone! The compact transmitter clips to the subject's belt, etc., and the unobtrusive electret microphone clips to a tie, lapel, or collar. Choose from two frequencies (49.83kHz or 49.89kHz) for the cleanest sound!

★ NEW, MODEL WMS-20 ★

Identical in performance to the WMS-10, the WMS-20 comes with both a hand-held mic. and a clip-on mic. for added versatility. Includes a handsome leatherette carrying case.

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NARDA's '85 retail survey reveals a thin bottom-line

No one knows it better than those out on the frontline. Profitability — in a word — typically was poor for retailers of home electronics and appliances in 1985. Dollar volume was up over '84, but "bottom-line profits failed to measure up," writes NARDA/NASD* in their annual "Cost of Doing Business Survey."

Not too surprising. In fact, the home electronics industry even has a nickname for this phenomenon: it's called "profitless prosperity." In response to squeezed profit margins, more dealers are turning to buying groups or cooperatives to help improve the bottom-line, NARDA/NASD reports.

If you're wondering how you stack up against the national average, here are some highlights of the 1985 NARDA/NASD survey.

Gross margins — Retailers who fall into the category "appliance, furniture, electronics - sales and service" were the clear-cut winners last year with an average gross margin of 35.5%. The losers? Dealers who sell, but do not service appliances and electronics. This group reported an average gross margin of 21.6%.

Major expenses — As a percentage of sales, the amount spent in 1985 on advertising (net after co-op), sales compensation and occupancy (rent or depreciation, maintenance and utilities) varied substantially among different kinds of retail operations. Outlets that sell and service appliances managed to hold expenses in these areas to 8.4% of their sales on the average.

Net income — After tax profits also varied widely between NARDA/NASD retailers. Electronics/appliance sales-only dealers who add furniture to the mix are the big money-makers, according to the NARDA/NASD report. One can infer from this that the typically higher-than-average margins offered in furniture are responsible for this divergence from the norm. Average net income came in at 4.2% of total gross sales, 2% above the next higher retailer category — electronics sales, service and rental stores — which registered 2.2%.

At the bottom of the barrel were electronics/appliance dealers who sell, service and rent. This category posted low average net income of 0.75%.

Listed below is the average net income for nine different types of retail operations. All figures are expressed as a percentage of gross total sales.

Average Net Income

Appliance/electronics sales and service firms — Gross sales volume:
Under $1 million: 1.4%
$1 to $5 million: 1.7%
Over $5 million: 2%
Average: 2%

Electronics sales and service firms. Gross sales volume:
Under $1 million: 3.4%
Over $1 million: 1.2%
Average: 1.7%

Appliance sales and service firms. Gross sales volume:
Under $1 million: 2.8%
Over $1 million: 0.05%
Average: 1.5%

Appliance/electronics sales-only firms. Gross sales volume:
Under $5 million: 1.1%
Over $5 million: 1.7%
Average: 1.5%

Appliance/furniture/electronics sales and service firms:
Average for all volumes: 1.6%

Appliance/furniture/electronics sales-only firms:
Average for all sales volumes: 4.2%

Appliance/electronics sales, service and rental firms. Gross sales volume:
Under $1 million: 1.6%
Over $1 million: 0.5%
Average: 0.8%

Electronics-only sales, service and rental firms. Gross sales volume:
Under $1 million: 1.9%
Over $1 million: 2.2%
Average: 2.2%

Appliance/electronics service-only firms:
Average for all sales volumes: 1.5%

*National Association of Retail Dealers of America/National Association of Service Dealers.

Our Floor Plan Dealers Have An Edge...

In the past, selling with credit was not always easy. And when a finance company offered "immediate" credit approval, you knew it really meant one full working day...or, at best, two to three hours.

At Whirlpool Acceptance, that wasn't good enough. Nothing short of a whole new concept in approving retail credit was sufficient to meet **our** definition of the word "immediate."

So we combined the technology of today with the proven principles of yesterday...to offer our dealers credit approval that truly **is** immediate and retail packages that truly **are** easy to use.

Credit approval in seconds. Most applications can be approved within seconds of the time an applicant's credit information is received. Because our computers can process a customer's credit history **even as you read it over the phone!** So...when you turn away from that phone, you **know** that sale is "closed"...and not just "in the process."

Service seven days a week...and late at night. "Banker's hours" may be good for some finance companies, but at Whirlpool Acceptance, credit is approved Monday through Friday, 9 a.m. - 11 p.m., Saturday 9:00 a.m. - 9:00 p.m. and on Sundays, noon 'til 8 p.m. (EST).

State-of-the-art computer centers. We have fully integrated decision software that delivers virtually instantaneous credit approvals

Prompt payment. Payment for a retail contract — instalment or revolving charge — is usually issued within one working day of receipt of a completed contract.

Credit limits known at time of sale. Credit limits are normally at amounts higher than requested. You and your customers know these higher limits at the time you complete the sale. So it's easy to add another feature if your customer wants...or plan for an additional purchase in the future...

Toll-free numbers. Our dealers never worry about long-distance calls. Our credit approval numbers are always **toll-free.**

"Glad you called" service. At Whirlpool Acceptance, we offer the kind of personalized service that makes you glad you called. It doesn't cost anything to try us...why not pick up the phone today?

To learn how you can have a retailing edge, write or call our corporate sales department. 553 Benson Road, Benton Harbor, Michigan 49022 (616) 926-5500

Whirlpool Acceptance CORPORATION

Showtime Video Ventures has introduced its controversial Universal Stabalizer, a device that is proposed as a corrective measure for sync problems caused by prerecorded videotape copyguards, but is also a copyguard breaker that could allow illegal copying of protected tapes. The manufacturer claims that no form of copyguard is immune, including Macrovision, which has been accepted for use by a number of the major studios. Suggested retail price for the unit is $279.95.

If you're running an appliance store or a radio & TV store, word has it from Wall Street that you're fairly popular. The Dun & Bradstreet Corp. reports that 435 appliance stores opened during the first six months of this year, as did 739 radio & TV stores. Compared to the first half last year, appliance store starts are up about 20 percent, while radio/TV starts dropped about 11 percent. As you'll notice in the accompanying charts, wholesalers of electronics parts and equipment also are popular in the eyes of entrepreneurs.

	First 6 mos of: 1985	1986
WHOLESALE TRADE BUSINESS STARTS		
Electronics, appliances, TV & radio	193	164
Electronics parts and equipment	476	447
RETAIL TRADE BUSINESS STARTS		
Household appliance stores	350	435
Radio & TV stores	822	739
WHOLESALE TRADE BUSINESS FAILURES		
Electronics, appliances, TV and radio	19	31
Electronic parts and equipment	42	60
RETAIL TRADE BUSINESS FAILURES		
Household appliance stores	80	93
Radio & TV stores	129	147

Source: The Dun & Bradstreet Corp.

36 Reasons Why, This Holiday Season, It's Better To Give Than To Rent.

FIVE STAR COLLECTION II

GREAT ENTERTAINMENT AT A GREAT PRICE

$29.98*

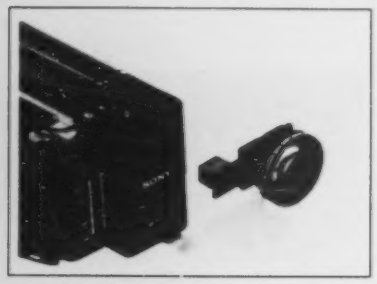
This holiday season, CBS/FOX VIDEO is giving your customers three dozen compelling reasons to give a gift of video.

From HELLO, DOLLY! to ROCKY, ROCKY II, ROCKY III to ALIEN to YANKEE DOODLE DANDY, our FIVE STAR COLLECTION II has something for everybody on your customers' gift list.

But the best part is, at a suggested retail price of $29.98 each, they're ready to move.

All of which means, it's time to get in the holiday spirit. Order extra copies of the FIVE STAR COLLECTION II today. And get ready for sales tidings of great joy.

Handycam retailers should note the new lens accessories for Sony's 8mm point-and-shoot model from Lenmar Enterprises, Gardena, CA. Two slip on lenses,



both made with Japanese glass optics, provide either 1.7X telephoto (shown here) or 0.5X wide angle shooting. Perhaps the telephoto will be useful for spotting those droves of 8mm customers, whom we're told are somewhere on the horizon, over the rainbow.

Compusonics was back in the news with the recent introduction of a CD-like digital audio system with recording capability, and a $6,995 retail pricetag. The system uses a 5-inch double-sided ($175) or single-sided ($99) optical disk that may be recorded once for permanent playback. First deliveries to dealers are expected in November through hi-fi maker McIntosh Labs. Also demo'd was an early prototype of an audio/video floppy disk recorder, which allowed 5 minutes of "semi-motion" video with audio; ultimately, such a system would allow sales of inexpensive music video "singles." Meanwhile, the company says it's still committed to the digital floppy disk recorder/player for consumers that it promised for last year. Still in development is a high-density drive that will allow an hour of music on a single disk.

Rabbit Systems has launched an aggressive TV advertising campaign this fall to promote its VCR-Rabbit, which allows the sending of VCR signals to remote TVs throughout the home. Beginning September 22, phase I will run for four weeks; phase II begins on November 7 and also runs for four weeks to help maximize Christmas sales. The spots will run about 100 times per week; the campaign blankets the top 20 TV markets across the country, according to president Ed Krakauer.